

Executive Chairman and Chief Financial Officer presentation scripts

2018 Annual Report and business update investor conference call

The following scripts were presented by Executive Chairman Keong Chan and Chief Financial Officer Peter Zhao during the investor conference call held on Friday 31 August 2018 and accompany the investor presentation of the same date.

Executive Chairman

Slide 1

Good morning everyone and thank you for joining us today for AuMake's Financial Year 2018 results presentation, including a business update.

My name is Keong Chan and I am the Executive Chairman of AuMake International Limited. I am joined by our CFO Mr Peter Zhao who will provide further detail in relation to our financial performance later in today's call.

Slide 5

If I could please ask you to turn to slide 5 titled 'FY18 overview'.

AuMake has invested significantly particularly from January to June 2018, in its staff, operations at both a corporate and store level, and on marketing activities to build the AuMake brand within the Daigou and Chinese tourist markets in Australia.

This investment during the year represents the foundation of our business, and as such, we expect future overall costs to stabilise, with a greater proportion of our future top line growth making its way down to the bottom line. Given the highly scalable nature of our business, we anticipate both top and bottom line growth to be quite significant over the next 12 months.

Peter will also later provide further detail on our statutory and normalised accounts, and like many early stage growth businesses, how these numbers reflect the level of investment in our business.

I would like to provide some of the headline numbers to give a high-level indication of how our business has performed during FY18. I also note that these numbers only represent nine months of a normal financial year, given that AuMake listed in October 2017.

Gross sales are up 107% year-on-year to \$21.4 million, gross profit up 172% to \$3.1 million, gross margin up 3.5% from 11.2% to 14.7% and same store gross profit growth of 97% over the corresponding period.

These percentage movements represent very strong growth in these key financial indicators and we anticipate even stronger financial growth over the next 12 months, given the foundations that have been put in place during the 2018 financial year.



We are also seeing strong growth of our owned brand products, both in terms of sales and gross profit, which ties in with the efficient way we manage our inventory levels across our business to extract maximum value.

I am also pleased to advise that our operational breakeven point is quickly approaching with the contrast of increasing overall gross profit against a stabilising operating cost base. While the breakeven point is important for any business, including ours, our board and management are focused on delivering profitability given our existing growth plans which I will discuss later in today's call.

AuMake has a strong cash position of \$10.7 million and is well funded for delivering growth over the next 12 months.

Slide 7

Turning to slide 7.

I understand that we may have some new investors either on the call or reviewing this later, so thank you in advance for allowing me the liberty of providing a snapshot of our business as it looks today.

We operate in the Daigou and Chinese tourist industries and specialise in the promotion of new Australian products to our customers in Australia which translates to the popularity of those same products back in China.

In Australia, we operate 13 retail stores in Sydney which is complemented by our strategic partnership with Chemsave which promotes the AuMake brand and owned brand products via 80 pharmacies in Queensland, New South Wales, the ACT and Victoria. We also have alliances with the Australian Made Campaign and the Sydney Chinese Tourist Guide Association who assist with the introduction of new suppliers and Chinese tourists respectively.

Our corporate head office is based in Auburn, New South Wales, where our warehouse facility is also located, along with our 34-corporate staff in the key areas of marketing, procurement and finance. Our head office deals with approximately 400 new and existing suppliers at any one time and manages the development and sales of our owned brand products that cover healthcare (Health Essence), cosmetics (AU8), wool products (Jumbuck/UGG AUS), honey (Medigum) and milk formula products (to be released later in FY19).

Our online store consists of AuMake and Kiwi Buy websites, mobile applications and WeChat. Our increasing offline store traffic is also increasing our online traffic, which is growing at a rate of approximately 1,000 members per week and currently sits at around 80,000 members. We are currently working on further online initiatives including the synchronisation of our JD.com online store with our WeChat members. We will provide further visibility in relation to our online store performance as it matures in the coming months.

Lastly, we have established our Daigou Hub in Xiamen which currently boasts 400 members and continues to increase. The Xiamen Daigou Hub is anticipated to provide further support to our Chinese growth plans and corresponding financial contribution from China over the next 12 months.

Slide 8

Slide 8 provides an illustration of the significant progress that AuMake has made since listing on the ASX in October 2017. We have reached notable milestones across our business which includes the introduction of owned brand products, opening of Daigou Hubs in Haymarket, Burwood and Xiamen, our strategic partnership with Chemsave, and acquisition of the Kiwi Buy business.

This rate of progress is likely to be maintained if not increased over the next 12 months, and I very much look forward to discussing those events in the months ahead.

I will now hand over to Peter who will provide further detail on our financial performance. Thanks Peter.



Chief Financial Officer

Thanks, Keong. As our slides indicate, AuMake has gone through a very rapid growth phase in FY18.

Slide 10

On slide 10, we show the FY18 profit and loss compared to FY17 proforma which is the PNL for AuMake Australia Pty Ltd prior to the ASX listing. As you can see from the statement on the right AuMake has had significant growth in revenue reaching almost \$21.4 million and gross profit of \$3.1 million for the year, with a healthy increase in the gross margin from 11.2% to 14.7%.

Our statutory loss for the year was \$11.1 million, however after excluding the \$6.4 million in non-cash and one-off expenses for company restructuring and ASX listing costs, our normalised EBITDA was a loss of \$4.86 million.

Excluding cost of sales, the underlying operating expenses were \$8.2 million for the year, aside from essential costs such as rent and labour, the operating costs also included establishment costs for head office infrastructure, key professional staff, as well as marketing and branding expenses incurred in setting a solid business base for the future. I am very pleased to advise that this foundational development phase ended in Quarter 4 and our operating costs are stabilised going forward.

The company is now well positioned for long-term sustainable growth and is expected to reach operational breakeven during FY19.

Slide 11

Turning now to slide 11, we can see a consistently strong quarterly increase in gross profit through fiscal 2017 and into FY18, with solid financial momentum particularly after ASX listing. This was driven by a number of factors including appropriate inventory levels, increasing proportion of higher margin owned brand products, effective marketing and brand building campaigns, along with the accelerated AuMake store expansion including the acquisition and integration of Kiwi Buy stores, which are currently trading at an average margin of 20% after the acquisition.

The original five stores prior to the listing showed very strong growth as well and achieved 97% year-on-year gross profit growth.

We are happy to report that this trend in gross profit growth is continuing into the September 2018 quarter.

Slide 12

On to slide 12, as I just mentioned we have been increasing our portfolio of AuMake owned brand product and have invested substantially in developing and marketing these products, which cover health supplements, honey, wool products, as well as skincare and cosmetics.

Sales for the year across our 78 SKUs were \$920,000 which represents 4% of annual sales.

As announced early this month, we will also launch milk powder products in FY19, further strengthening the portfolio. All these investments have been generating very good return in terms of sales and gross profit.

As we further develop and expand distribution channels in the Australian domestic market and China, the brand equity for our portfolio of owned brands, and their contribution to the business, will grow stronger.



Slide 13

Now we turn to slide 13, we can see from this graph that AuMake is experiencing significant operating leverage against revenue throughout the year and has started to reduce its operating expenses as a percentage of sales in Q4, following significant investment in Q2 and Q3 after ASX listing, with costs incurred, as mentioned previously, in establishing the business fundamentals and setting a strong foundation that will be key to future growth.

We believe that Q4 marks the inflection point of our operating cost structure and cash flow generation, with expectations that we will hit normalised cost breakeven in FY19.

Management's strong focus on cost control will continue across all areas of the business to ensure effective returns. We expect costs to reduce as a percentage of revenue going forward as we gain positive operational leverage.

Slide 14

Turning to slide 14, the company has managed its balance sheet through a very rapid phase of expansion in 2018.

As at 30 June, the company had \$10.7 million cash on hand and \$3.3 million of inventory, after investing in critical infrastructure to support our future growth.

Expanding our store network from five to 14 stores over the year and investing in supply chain efficiencies enabled us to appropriately allocate inventory levels and set a new baseline for reduced inventory per store going forward, in line with sales growth rates.

With this healthy balance sheet and expected operational breakeven, AuMake is well funded to implement its strategic priorities.

I will now hand back to Keong to discuss our strategic outlook and provide further detail on what's to come for the business in FY19.

Executive Chairman

Slide 16

Thank you Peter. I am now referring to slide 16.

Up to this point of the presentation we have mainly been discussing the state of the AuMake's business as it stands, however I would now like to turn our attention to AuMake's future and our growth plans which is the company's primary focus.

For our Australian operations, we will continue to look at store growth opportunities particularly via acquisition.

The Kiwi Buy acquisition has been exceptional both in terms of value and accretion to AuMake. The previous owners of Kiwi Buy found it increasingly more difficult to compete in our industry and made the difficult decision to sell the business.

However, with AuMake's resources and in-house capability at hand, the Kiwi Buy stores are delivering on average gross margins of 20% from its historical base of 10% prior to our acquisition, which represents a 100% uplift in only three months.

The Kiwi Buy acquisition clearly demonstrates our proprietary intellectual property in our industry, and shows how quickly and significantly, AuMake can grow from accretive acquisitions. To this end, we are in the privileged position of being continually approached by parties in our industry to discuss potential acquisition opportunities which provides AuMake with significant scope for growth in NSW and other states, in the near term.

With an increasingly more profitable and stable operational base in Australia, I would now like to provide further detail on our growth strategies in China.



AuMake's increasing brand presence as an ASX listed company in the Daigou and Chinese tourist markets in Australia is having a major impact on our brand recognition and credibility in China. We have been approached by a number of distributors both online and offline in China to discuss the distribution of AuMake owned brand products or to jointly create and own brands together.

With the significant investment we have made in our business, we are able to generate momentum for new Australian products with Daigou and Chinese tourists in Australia, which then translates into momentum in the Chinese market. Quite simply, when someone from within China calls or WeChats someone in Australia they know that to find out if a product is known in Australia to come to AuMake for help with that answer and when it's 'yes' it's more likely to crystallise the transaction.

This is at the heart of AuMake's unique value proposition and it is something which Chinese mainland companies find difficult to replicate even with, often-significant, resources that they have at hand.

To this end, we are able to provide something which is of significant value to our Chinese partners and importantly, the costs associated with marketing the relevant products in China is borne by our partner company, and likewise we bear the costs for them for marketing in Australia which are relatively minor in comparison, for our Australian activities.

I am extremely encouraged by our progress in China, which has happened sooner than we anticipated, and the company will provide further details regarding existing negotiations in the near future.

In relation to our owned brand product portfolio, we continue to find significant scope for the creation of new products within existing product categories. Product innovation is critically important in our ability to draw new customers and gross margin improvement, and we are fortunate to be working with incredible partners who currently manufacture our owned brand products. We will provide further information regarding new products and brands as appropriate, particularly in relation to our milk formula products in the coming months.

In conclusion and to summarise the discussion during today's call, I would like to personally acknowledge AuMake's achievements to date and the amount of progress made during this financial year. This is just the start for us and I am confident of continuing strong growth over the next 12 months which will see the transformation of AuMake into a significant player in the daigou and Chinese tourist markets in Australia.

That brings to conclusion our presentation and Peter and I are now able to take a few questions.

Thank you

About AuMake

AuMake International Limited is an ASX listed retail company connecting Australian suppliers directly with Daigou and Chinese tourists.

AuMake engages with the growing and influential Daigou and Chinese tourist markets, by offering a one-stop-shop retail network. This includes a range of Australian products across four main categories including:

- healthcare (supplements and food)
- skin, body care and cosmetics
- dairy products and baby food (including infant formula)
- wool and leather products.

Customers of AuMake value the full service offering which includes knowledgeable bilingual staff, multiple payment options (including WeChat, Alipay and Unionpay) and an in-store logistics service for the delivery of products to anywhere in the world including China.

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