



BUSINESS UPDATE

JULY 2020



# ABOUT US



**Candy Club is a US-based confectionery company that is focused on its fast-growing B2B wholesale business, which has grown out of a long-running B2C subscription business. Candy Club operates through two main distribution channels – traditional brick-and-mortar stores and e-commerce.**



# COMPANY OVERVIEW



# COMPANY BACKGROUND

- 📍 Founded in 2015, Candy Club started as a pureplay business-to-consumer (B2C) subscription-only business.
- 📍 Candy Club re-calibrated its strategy in September 2019, pivoting its business to retailers where a gap in the market for high-end candy products was identified.
- 📍 Since then, the B2B market has become the Company's primary driver, consistently hitting significant milestones every quarter across all its key metrics.
  - 🎯 Revenue
  - 🎯 Revenue growth
  - 🎯 Gross margin
  - 🎯 Total retail doors
  - 🎯 Number of customers
  - 🎯 Re-order rates
- 📍 Candy Club's key strategy is to acquire prominent national retail accounts, owning the under-utilised retail space at point-of-sale.

# 2Q FY2020 AT A GLANCE

- 📍 Candy Club changed its reporting currency from Australian dollars to US dollars, commencing with the quarter ended 30 June 2020 (2Q FY2020), to better reflect its underlying operational and financial performance.

	1Q FY2020	2Q FY2020	QoQ Change	1H FY2020
<b>Total gross revenue</b>	<b>US\$1.4m</b>	<b>US\$2.3m</b>	<b>66.6%</b>	<b>US\$3.8m</b>
B2B Revenue	US\$0.7m	US\$1.6m	134.5%	US\$2.2m
B2C Revenue	US\$0.7m	US\$0.8m	4.6%	US\$1.5m
<b>Gross margins</b>	<b>42.0%</b>	<b>41.4%</b>	<b>-0.6 ppts</b>	<b>41.6%</b>
<b>EBITDA*</b>	<b>-US\$0.8m</b>	<b>-US\$0.4m</b>	<b>42.9%</b>	<b>-US\$1.2m</b>
<b>Net Operating Cash Flow (NOCF)*</b>	<b>-US\$1.2m</b>	<b>-US\$0.9m</b>	<b>21.9%</b>	<b>-US\$2.1m</b>

Note: 1) Figures in value and percentages tabulated above may not add up due to rounding.

2) QoQ: quarter-on-quarter.

3) \* Please refer to slide 24 for more detailed information.

# HIGHLIGHTS



- 📍 Candy Club recorded a remarkable 2Q FY2020 while operating in an extremely challenging environment:
  - 🔪 The COVID-19 pandemic caused widespread closures of brick-and-mortar stores for most of the 2Q,
  - 🔪 There have been further delays in store openings due to civil unrest in the US,
  - 🔪 There has been stock unavailability on high-demand items due to an unexpected sales surge, and,
  - 🔪 Lastly, 2Q is usually a seasonally softer quarter.
- 📍 The strong quarter was mainly driven by the spectacular growth in B2B segment that grew 135% QoQ. YoY, growth in B2B gross revenue was 503%.
- 📍 The growth is mainly on the back of sales surge from retailers (providing essential services which are unaffected by the pandemic closures), online pureplay e-commerce boutiques and traditional brick-and-mortar e-commerce websites.

# HIGHLIGHTS



- 📍 Candy Club expects to be profitable (EBITDA-positive) in 4Q FY2020 with its current balance sheet and available financing facilities .
- 📍 Candy Club enters the second half of FY2020 with a very promising outlook. Furthermore, 3Q and 4Q are usually seasonally stronger quarters, which will benefit Candy Club.
- 📍 As the situation with COVID-19, civil unrest and stock unavailability normalises in the US, Candy Club expects the traditional brick-and-mortar B2B retailers to return and B2B revenue growth to accelerate further.

## Returning national and regional B2B customers



## New national and regional B2B customers





# B2B MARKET OPPORTUNITY





# B2B MARKET OPPORTUNITY

- Annual sales in the US confectionery market is US\$40bn. Candy Club has identified a massive untapped opportunity in this sector.

## Key benefits of the candy category to retailers;



Annual sales of  
US\$40 billion



Reliable gross  
margins



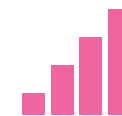
Long shelf life



Defensive  
product



Increases average  
order value



High ROI & lack  
of markdowns



High turnover  
rate



Drive incremental  
store traffic



Non-cannibalistic to  
existing products



Large demographic  
appeal

# WHITE SPACE STRATEGY



- 📍 In September 2019 the Company identified under-utilised counter space at premium retailers across the US as a growth opportunity and an untapped sales and distribution channel for Candy Club products.
- 📍 This “white space” opportunity represents over 3.2 million retail doors. Candy Club is now being distributed by:
  - 📌 Department stores (Nordstrom, Macy’s, Bloomingdales)
  - 📌 Gift stores (Hallmark, Paper Stores)
  - 📌 Hotel and casino gift shops (Ritz Carlton, Four Seasons, Caesars Properties)
  - 📌 Apparel (Justice)
  - 📌 Additional opportunities exists in museums, amusements parks and cruise ships.



Fresh Market (Miami)



Woodlands Market (San Francisco)

# WHITE SPACE STRATEGY



📍 Being successful in the specialty market requires:



Differentiated  
products



Premium  
products



Giftable  
packaging



Higher price  
points

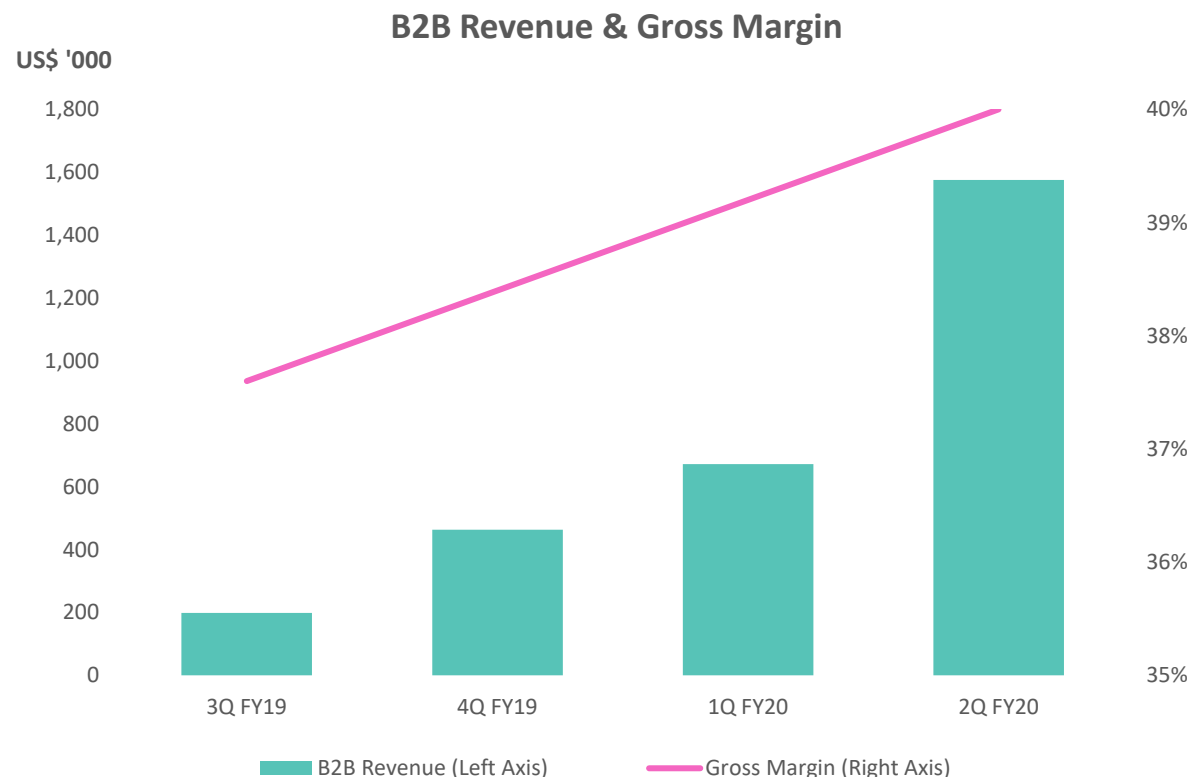
**... and Candy Club has it all**



# B2B SEGMENT PERFORMANCE

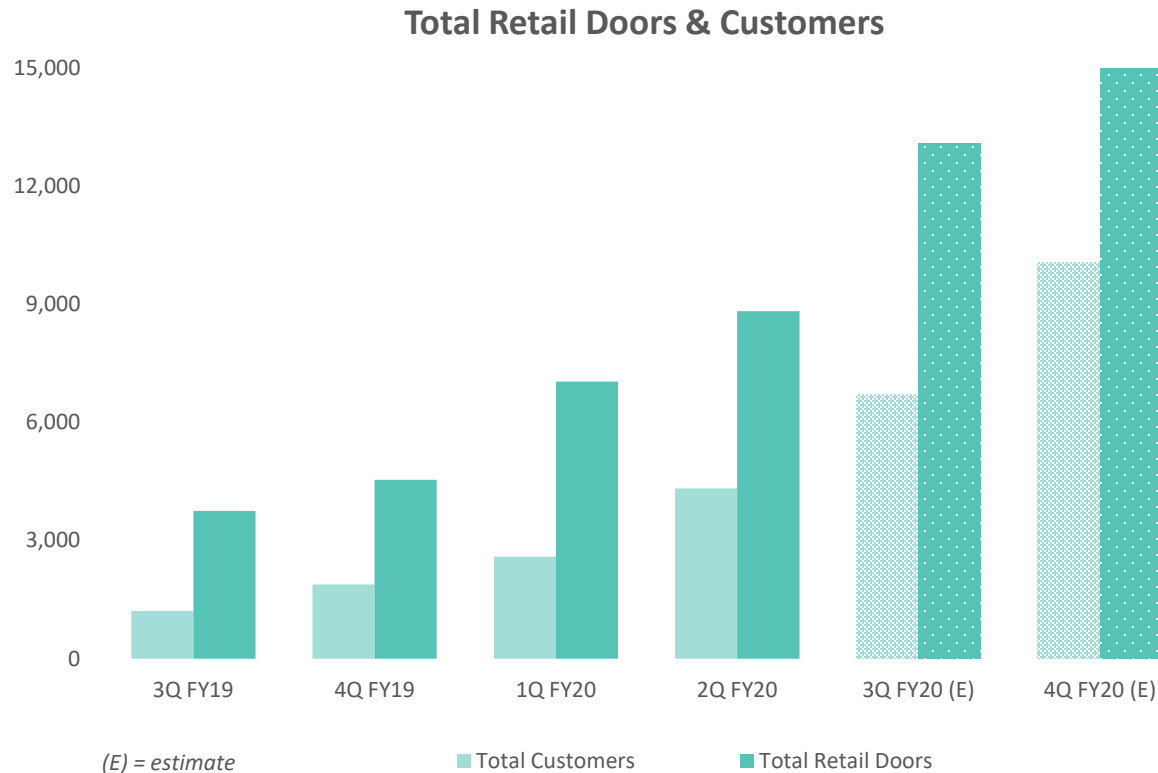


# B2B REVENUE & GROSS MARGIN



- 📍 It was a strong quarter for Candy Club's B2B segment where it experienced exponential growth.
- 📍 Total B2B gross revenue surged in 2Q FY2020 to US\$1.6 million.
- 📍 This represents a growth multiple of 2.3x QoQ and 6.0x YoY.
- 📍 The exceptional performance further validates Candy Club's conviction in pivoting the business to B2B in September 2019.
- 📍 B2B gross margin has significantly improved to 40% in 2Q FY2020.

# TOTAL RETAIL DOORS & CUSTOMERS



- 📍 Candy Club's total number of retail doors continued to increase from 4500 in December 2019 to more than 8800 June 2020.
- 📍 The number of customers has more than doubled year-to-date.
- 📍 Candy Club started the year with less than 2000 customers and has grown to almost 4500 in June 2020.
- 📍 The number of retail doors and customers are expected to reach 15,000 and 10,000, respectively, by the end of FY2020.



# RE-ORDER RATE



<sup>^</sup> The lower re-order rate in 4Q FY2020 was mainly due to a massive influx of new customers during the quarter.

- 📍 Re-order rate is the rate a customer repeats an order.
- 📍 The average quarterly re-order rate has exceeded 90% in three of the last four quarters.
- 📍 Repeat orders represent customer satisfaction in the products purchased.
- 📍 The high re-order rate is bolstered by positive feedback and high ratings received from customers on retailers' websites.

# CUSTOMER FEEDBACK



- 📍 Faire and Tundra are two of the most prominent online wholesale platforms that carry Candy Club's products.
- 📍 Candy Club's retailer satisfaction ratings are outstanding as Faire averages at 4.8 out of 5 while on Tundra the rating averages at 5 out of 5.

## F A I R E

June 28



Awesome Candy

The candy taste amazing! Perfectly packaged! The only complaint I have is the display :( I spent 3 hours getting everything put together and stocked. I came in the next morning to a collapsed display and candy containers everywhere. It is not supportive at all. Do not put all your candy on the display at one time!

June 25



Love it!

Such a hit! Everything is so delicious and FRESH! Will definitely keep their products in my store!

June 22



Fun stuff!!

It's been selling well since we put it on the shelves. Love the colorful product and great packaging. Delivered quickly and perfectly! We appreciate that more than we can ever fully express!! We are all busy and we so appreciate businesses that deliver fast and without any supply issues! No one has time to track down missing pieces. This company is wonderful!

## tundra



Mermaid Friends Gift Set

JUNE 25, 2020



Lemonade Rings

JUNE 25, 2020



Sour Gummy Octopus

JUNE 20, 2020



Strawberry Sour Belts

JUNE 20, 2020



Peach Hearts

JUNE 20, 2020



Cotton Candy Sour Belts

JUNE 20, 2020



# PRODUCT DIFFERENTIATION



## MASS MARKET PRODUCTS



Gummy Dinos



Sour Pink Cadillacs



Chocolate Pretzels



Blue Razz Laces



M&M's



Mars



Snickers



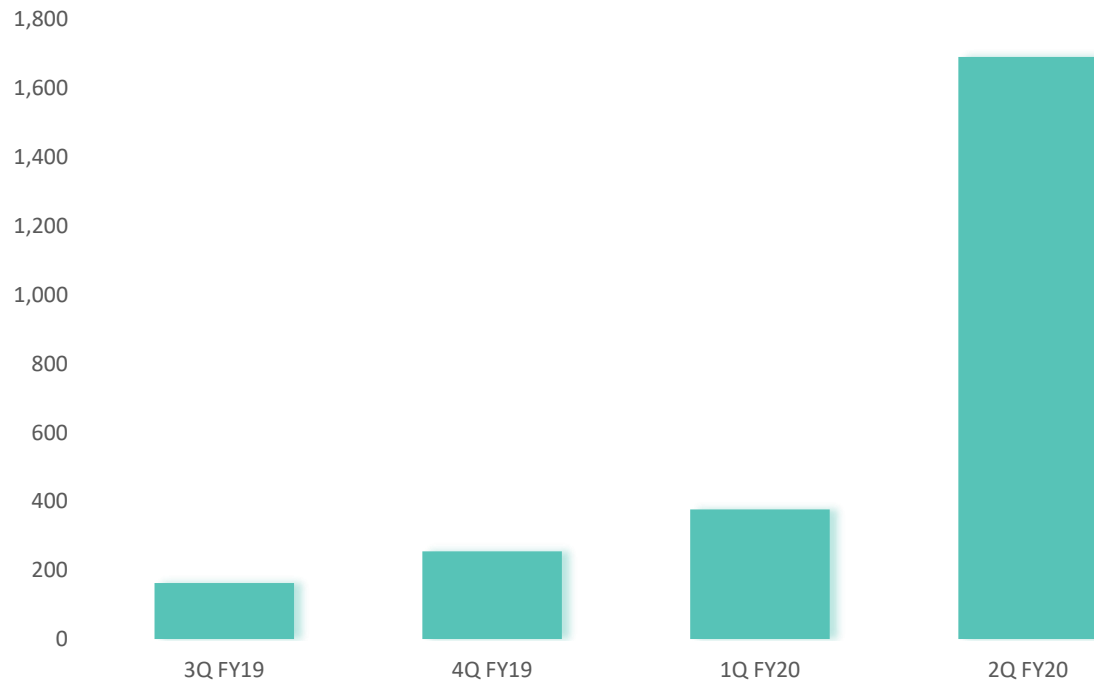
Hershey's



# B2B INBOUND CUSTOMER LEADS



B2B Inbound Customer Leads

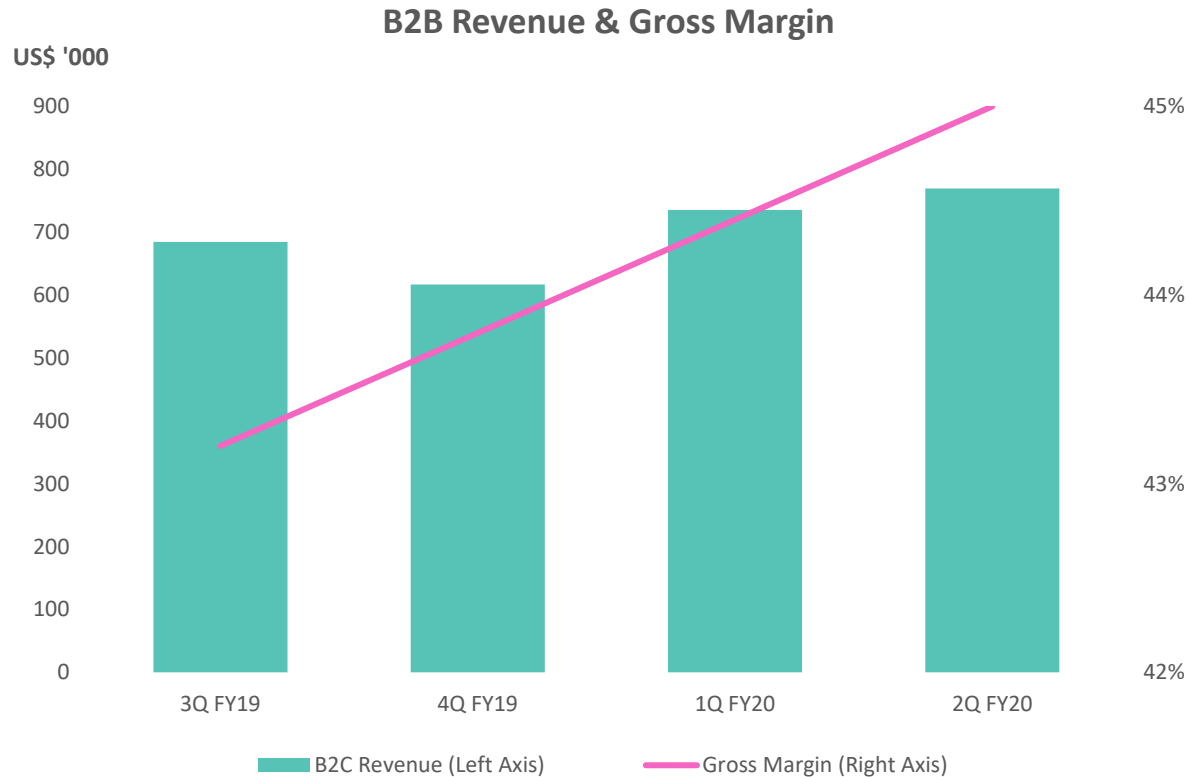


- 📍 Total number of B2B inbound customer leads are ramping rapidly.
- 📍 Generally, 35% of total B2B inbound customer leads convert to B2B customers.
- 📍 This will eventually translate into additional B2B customers, ensuring a robust pipeline of customers to fuel future revenue growth.

# B2C SEGMENT PERFORMANCE



# B2C REVENUE & GROSS MARGIN



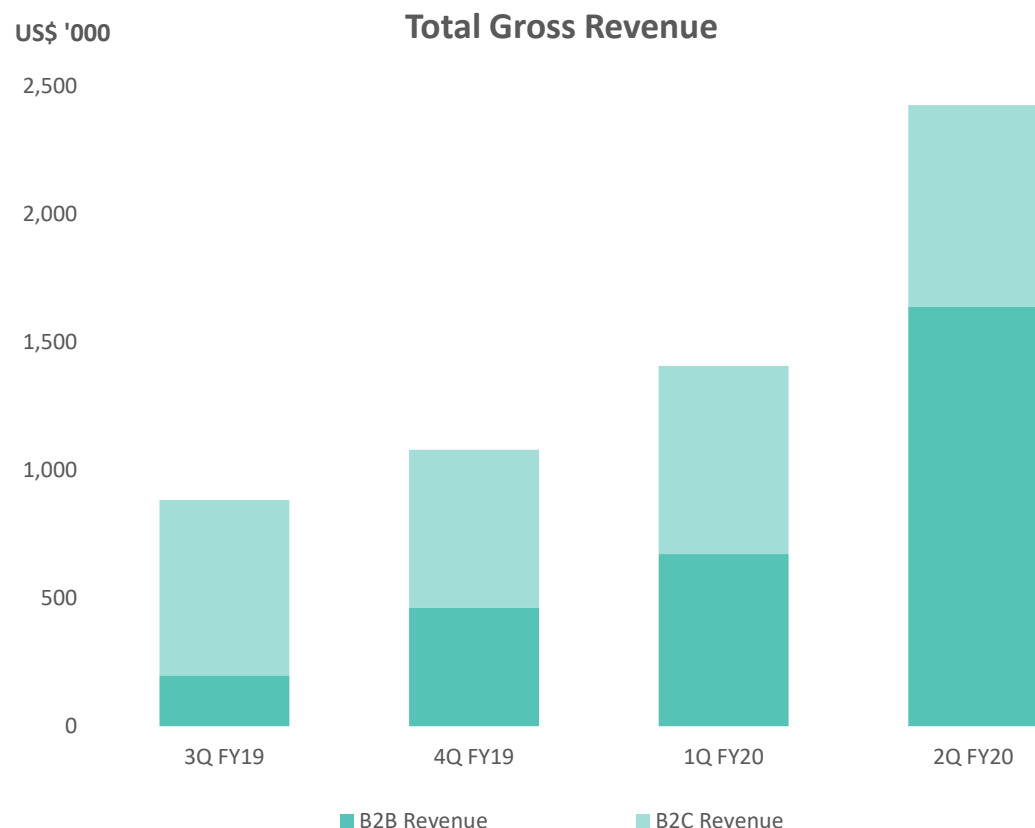
- 📍 The B2C segment also saw a solid performance.
- 📍 The subscription-based segment is profitable as a standalone business on the first customer consignment.



# 2Q FY2020 PERFORMANCE

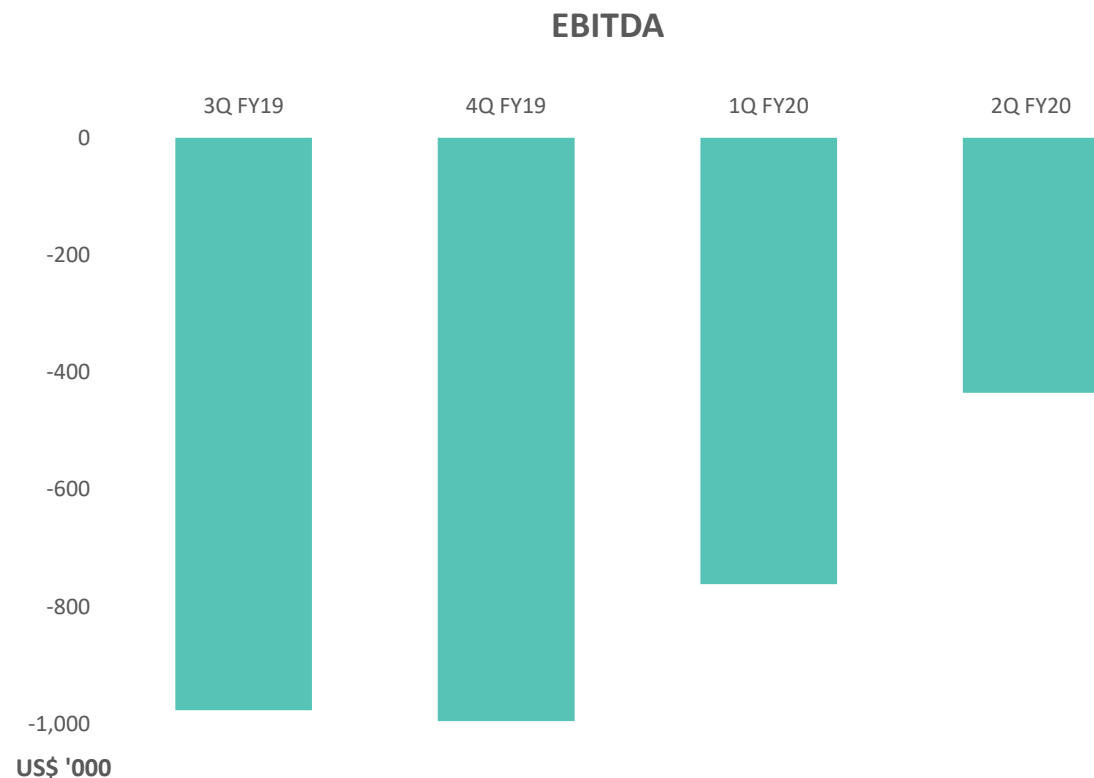


# 2Q FY2020 FINANCIAL RESULTS



- 📍 Candy Club experienced a strong 2Q FY2020.
- 📍 Total gross revenues grew 67% QoQ to US\$2.3 million, mainly driven by 135% growth in B2B gross revenue.
- 📍 This is an exceptional result amid the COVID-19 pandemic and a quarter that is usually seasonally softer.
- 📍 Gross margins remained stable during the quarter, standing at 41.4%.

# 2Q FY2020 FINANCIAL RESULTS

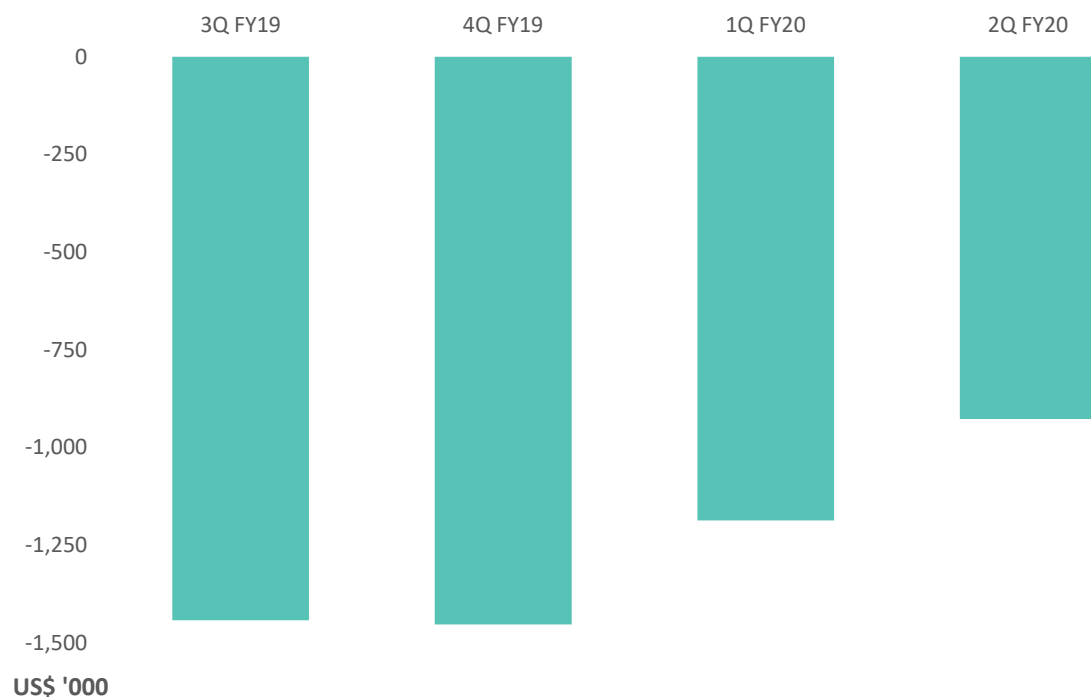


- EBITDA loss continued to reduce, at only -US\$0.4 million in 2Q FY2020.
- Candy Club expects to reach profitability (EBITDA-positive) in 4Q FY2020 as it continues to focus on sustainably scaling its business.
- As Candy Club's revenue grows while expenses reduce, the Company's EBITDA will continue to improve in FY2020.
- This pace of growth trajectory further validates the strength of the Company's business model.

# 2Q FY2020 FINANCIAL RESULTS



Net Operating Cash Flow (NOCF)



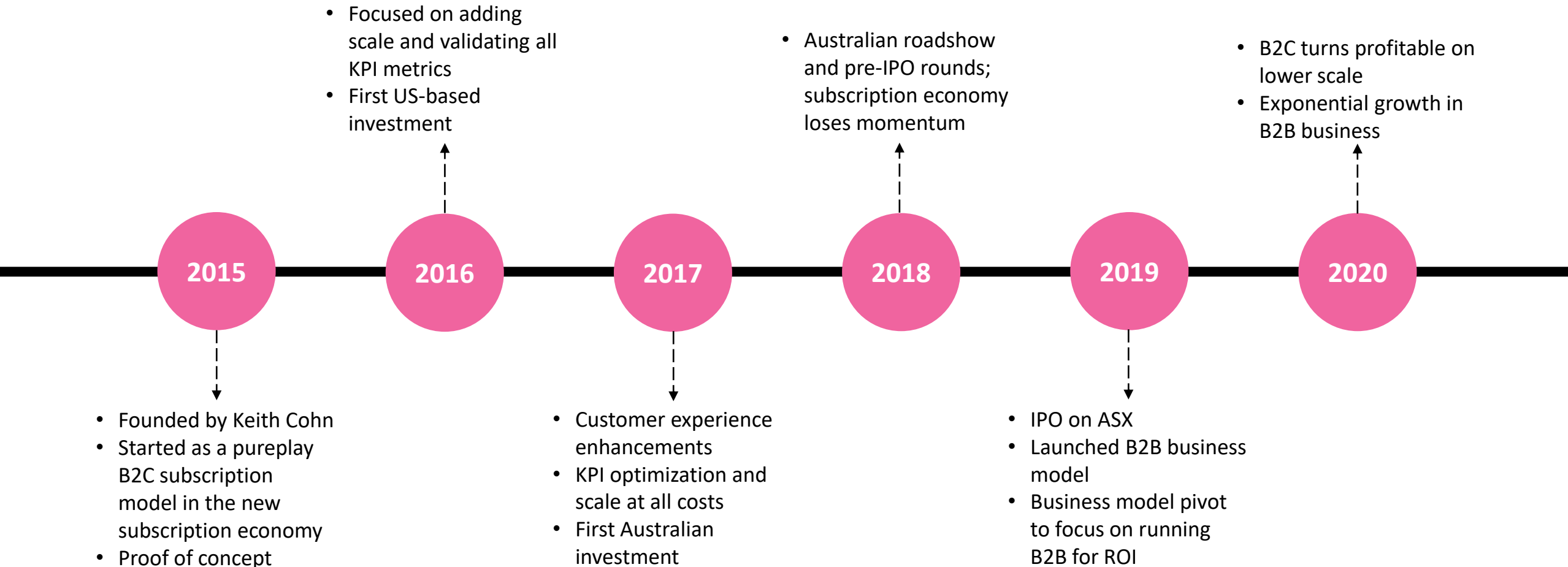
- Net operating cash flow (NOCF) improved to -US\$0.9 million in 2Q FY2020.
- The difference between the EBITDA loss and NOCF can be attributed to inventory purchases required to support future growth (US\$365k), financing costs related to securing financing lines (US\$100k) and interest (US\$35k).
- NOCF will remain negative in the short term to support necessary inventory purchases resulting from further anticipated growth.
- There is availability under the inventory credit facility that will be used to support near-term cash requirements.



# APPENDIX



# CANDY CLUB TIMELINE



# CANDY INDUSTRY OVERVIEW

**Annual sales exceeds  
US\$40 billion with  
2% growth p.a.**

**97% US  
household  
penetration**

**A customer makes 18  
purchases annually on  
average**

- 📍 Candy is **the primary category** sold at the check-out register with 100% penetration in the mass market, including:
  - 🔗 Big-box (discount) stores – Walmart, Target
  - 🔗 Grocery chains – Kroger's, Publix
  - 🔗 Pharmacy chains – CVS, Walgreen's
  - 🔗 Gas stations, convenience stores and many other verticals

# WHITE SPACE STRATEGY

- 📍 There are several reasons why this opportunity exists, including:
  - 🔩 Category leaders are more mass market-focused and their products are not a good fit for specialty market retailers due to pricing, package and lack of product differentiation
  - 🔩 Fragmented specialty market manufacturers that are limited to selling their own product range
  - 🔩 Lack of innovation and investment
- 📍 Candy Club is uniquely qualified to dominate this landscape of over 3.2 million retail doors.
  - 🔩 B2C subscription model seeded the marketplace with consumer advertising and brand recognition.
  - 🔩 B2C model created scalable supply chain with access to diverse product line to all manufacturers and candy types.
  - 🔩 Public entity with access to resources.
  - 🔩 Scalable infrastructure.
  - 🔩 Skilled management team and board with track record of building businesses at scale.



# INCOME STATEMENT



<i>in US\$ million</i>	1Q FY2020	2Q FY2020	1H FY2020
<b>Gross Revenue</b>	<b>1.41</b>	<b>2.34</b>	<b>3.75</b>
Discounts & Refunds	-0.18	-0.17	-0.35
<b>Net Revenue</b>	<b>1.23</b>	<b>2.18</b>	<b>3.40</b>
Cost of Goods Sold	-0.71	-1.28	-1.99
<b>Gross Margin</b>	<b>0.51</b>	<b>0.90</b>	<b>1.42</b>
<i>Gross Margin (%)</i>	42.0%	41.4%	41.6%
Selling Expenses	-0.23	-0.36	-0.59
<b>Contribution Margin</b>	<b>0.29</b>	<b>0.54</b>	<b>0.83</b>
<i>Contribution Margin (%)</i>	23.3%	24.9%	24.3%
Operating Expenses	-0.96	-0.90	-1.86
Public Expenses	-0.09	-0.07	-0.17
<b>EBITDA</b>	<b>-0.76</b>	<b>-0.44</b>	<b>-1.20</b>
Other Income/Expenses	-0.08	-0.12	-0.20
<b>Net Income/(Loss)</b>	<b>-0.84</b>	<b>-0.55</b>	<b>-1.39</b>

Note: Figures in value and percentages tabulated above may not add up due to rounding.

# BALANCE SHEET



<i>in US\$ million</i>	<b>as at 30 June 2020</b>
Cash	0.64
Accounts Receivable	0.25
Inventory	2.65
Other current assets	0.44
<b>TOTAL CURRENT ASSETS</b>	<b>3.98</b>
Fixed assets	0.05
Other fixed assets	0.48
<b>TOTAL LONG TERM ASSETS</b>	<b>0.53</b>
<b>TOTAL ASSETS</b>	<b>4.51</b>
Accounts Payable	1.46
Other current liabilities	0.95
<b>TOTAL CURRENT LIABILITIES</b>	<b>2.41</b>
Long Term liabilities	1.25
<b>TOTAL LIABILITIES</b>	<b>3.66</b>
APIC - Stock options	1.14
Equity - All rounds	31.69
Retained earnings	-30.58
Net income	-1.39
<b>TOTAL EQUITY</b>	<b>0.85</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>4.51</b>

*Note: Figures in value and percentages tabulated above may not add up due to rounding.*

# STATEMENT OF CASH FLOW

<i>in US\$ '000</i>	1Q FY2020	2Q FY2020	1H FY2020
<b>Beginning Cash</b>	<b>0.53</b>	<b>0.35</b>	<b>0.53</b>
Cash from provided/(used) from Operating Activities	-1.19	-0.93	-2.11
Cash from provided/(used) from Investing Activities	0.00	-0.10	-0.10
Cash from provided/(used) from Financing Activities	1.01	1.32	2.32
<b>Increase (Decrease) in cash during period</b>	<b>-0.18</b>	<b>0.29</b>	<b>0.11</b>
<b>Ending Cash</b>	<b>0.35</b>	<b>0.64</b>	<b>0.64</b>

# CAP TABLE & TOP 10 SHAREHOLDERS

- 📍 Total shares outstanding: 236,154,102
- 📍 Total options outstanding: 102,981,624
- 📍 Total shares and options on a fully diluted basis: 339,135,726

	Holder Name	Holding	% IC
1	JCKB PTY LTD	49,300,514	20.88%
2	CITICORP NOMINEES PTY LIMITED	22,184,501	9.39%
3	INSTANZ NOMINEES PTY LTD <HEARTS A/C>	12,562,500	5.32%
4	CHI KAN TANG	12,498,117	5.29%
5	SABONE INTERNET INVESTMENTS LLC	9,457,221	4.00%
6	JAMES CLIVE KNOX BAILLIEU	8,712,910	3.69%
7	BEDWELL PTY LTD <BEDWELL DISCRETIONARY A/C>	5,506,509	2.33%
8	KEC VENTURES II LP	5,322,351	2.25%
9	10 BOLIVIANOS PTY LTD	4,945,734	2.09%
10	MUTUAL TRUST PTY LTD	3,900,000	1.65%
Total		134,390,357	56.91%
Total Issued Capital		236,154,102	100.00%



# EXECUTIVE BOARD



## Keith Cohn

**Founder, CEO & Executive Director**



- More than 20 years of experience in the consumer industry, a 4x serial entrepreneur and startup executive.
- Founder & CEO, Vendare Media, a leading adtech company with 300 employees and annual sales of A\$200 million.
- Founder & CEO, Bardon Advisors, a boutique adtech company. Acquired by Media Trust for A\$30 million.
- Former Executive with Mattel, Hasbro, Equity Marketing.

# EXECUTIVE BOARD



## James Baillieu

### Chairman



- 📍 Mr Baillieu brings a wealth of corporate experiences to Candy Club, having previously served as Non-Executive Chairman of BidEnergy Limited (ASX: BID), which was the best performing stock on ASX under his leadership.
- 📍 Mr Baillieu was also an early investor in Aconex Limited (ASX: ACX) and Senior Vice President of Business Development, and spent more than seven years as a consultant with McKinsey & Co, assisting businesses in Australia and internationally with strategy and operational improvement.
- 📍 Mr Baillieu holds an LLB (First Class Honours) and Bachelor of Arts from the University of Melbourne.
- 📍 Mr Baillieu is working with Candy Club management team to focus the Company on its fast-growing B2B offering.

# EXECUTIVE BOARD



## Andrew Clark

### Non-Executive Director



- Mr Clark joined Candy Club Board with a wealth of knowledge gained in executive and senior leadership positions whilst working for more than 20 years in the Consumer Goods sector.
- Domestic and global roles held in large multinational and national public businesses and smaller private equity businesses covering manufacturer/supplier, wholesaler/retailer and technology/platform operations in the Australian, UK and US markets.
- Previously held roles at Cadbury Schweppes, Reckitt Benckiser; Nestle; Metcash and irexchange.
- A record of success in helping businesses deliver consistent growth, develop and implement business strategies, transform business operations as well as deep functional expertise in commercial activities including sales, marketing and supply.

# EXECUTIVE BOARD



## Kan Tang

### Non-Executive Director



- 📍 Founding Partner of Asia Summit Capital, a private equity firm focused on consumer growth and the technology sector in Indonesia and Southeast Asia.
- 📍 Kan co-founded Asianlogic which was listed on UK's AIM stock exchange in 2007 raising over US\$100 million and successfully returned as a private company through management buyout in 2009.
- 📍 During his time in Asianlogic, he took on numerous senior roles & responsibilities from CFO in the early stages of the company growth to Business Development Director and was promoted to Chief Executive Officer in 2009 until 2014.
- 📍 A qualified Chartered Professional Accountant (CPA) and a Chartered Financial Analyst (CFA), Kan is a true online gaming industry visionary having joined on of industry's first live streaming online casino company, Dragon Sports & Gaming Ltd "DrHo888" in 2001.





# Thank You.

