ASX: BUB
Bubs Australia

1H FY21 HALF YEAR RESULTS

Building on strategic pillars in response to COVID-led channel disruption.

26 February 2021

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Bubs Global Brand Ambassador

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Growing
Generation Joy™

Creating new generations of happy, healthy bubs

GOODNESS

We believe in wholesome, healthy food and a positive approach to life.

VERY BEST

We believe in being thorough and uncompromising, sticking to our ethics no matter what.

HONESTY

We believe in 100% transparency, this is 'clean' food from a brand you trust.

PLAYFULNESS

We believe in the joy of family time, the pleasure of sharing happy moments and being together.

CONTENTS PAGE

FINANCIAL **HIGHLIGHTS**

Despite COVID-led disruption to the Daigou channel, 1H FY21 results were partly offset by the strong performance of Bubs® Goat Infant Formula **growth momentum in both domestic retail and China eCommerce**.

$22.2m

1H FY21
Group Gross Revenue[1]

+36%

Goat Infant Formula to China gross revenue[1] growth pcp.

No.1

Goat Infant Formula brand[3] in Chemist Warehouse and fastest growing Infant Formula manufacturer[4] in Woolworths, Coles and Chemist Warehouse combined.

3x

Market share growth of Bubs Infant Formula in Australian retail pcp[3] .

+5%

Bubs Infant Formula gross revenue[1] to Australian Retail increased, despite category sharp decline.

34%

Goat Infant Formula product margin[2] consistent with FY20.

$40.2m

Robust balance sheet. Cash reserves as at 31 Dec 2020.

[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. [2] Gross margin is calculated as (Revenue – Production Costs) / Revenue.

[3] IRI Scan value sales Dollars ('$000) data, Coles, Woolworths and Chemist Warehouse 13 weeks to 3/1/21.

[4] IRI Scan value sales Dollars ('$000) data, Coles, Woolworths and Chemist Warehouse combined 26 weeks to 3/1/21

MARKET **CONTEXT**

KEY HIGHLIGHTS – **MARKET OPPORTUNITY**

In the "next normal" new consumer trends will drive **acceleration of change** in **China consumer consumption.**

1.

$37bn[1] China remains the world's biggest infant formula market with premiumisation segment in growth. Goat milk infant formula cross border e-commerce category growing 88% on prior calendar year, compared to a growth rate of 56% for the total China infant formula category in cross border e-commerce platforms.[2]

Bubs® is ideally positioned to benefit in the fastest growing premiumisation segment within the world's largest infant formula category.

2.

Rapid Digitisation driving consumer retail sales. Online retail sales growth for consumer food items remains high with 55% growth[3] in online shoppers of food and grocery items compared with prior to the pandemic.

Bubs® ability to quickly refocus and pivot to online e-commerce channels is essential in order to access China channel shifting which is now embedded and growing.

3.

Health, Quality and Safety concerns driving consumer trends, with two-thirds of Chinese consumers saying they are more focused on product safety than prior to the pandemic[3] with demand for quality and healthier living is rising.

Bubs® brand attributes and access to high quality, trusted milk source direct from goat dairy farms, are aligned with heightened consumer concerns for safety and origin traceabililty.

1. USD Retail Value.. Euromonitor; Lit research; Expert interview; Analyst reports.
2. Expert Interviews from major CBEC channel platform in China – Infant Milk Formula category cross border e-commerce platform 2020 calendar year growth.
3. McKinsey & Company China Consumer Report 2021, *Understanding Chinese Consumers: Growth Engine of the World.* "How Covid-19 has changed Chinese Consumption."

CHALLENGING **COVID MACRO IMPACT**

Notwithstanding external forces creating channel disruption and volatility across our sector in 2020, Bubs is well placed with **strong foundations, emerging brands and a robust balance sheet** to go forward delivering sustainable and profitable growth as we pivot our route-to-market strategies in response to the pandemic accelerating consumer trends.

Channels shifting and merging, with acceleration of new routes to market.

Rebalance inventory due to supply and demand volatility.

China's rapid shift to digitisation, powered by social commerce.

Consumers increasingly value quality, health and safety in packaged foods.

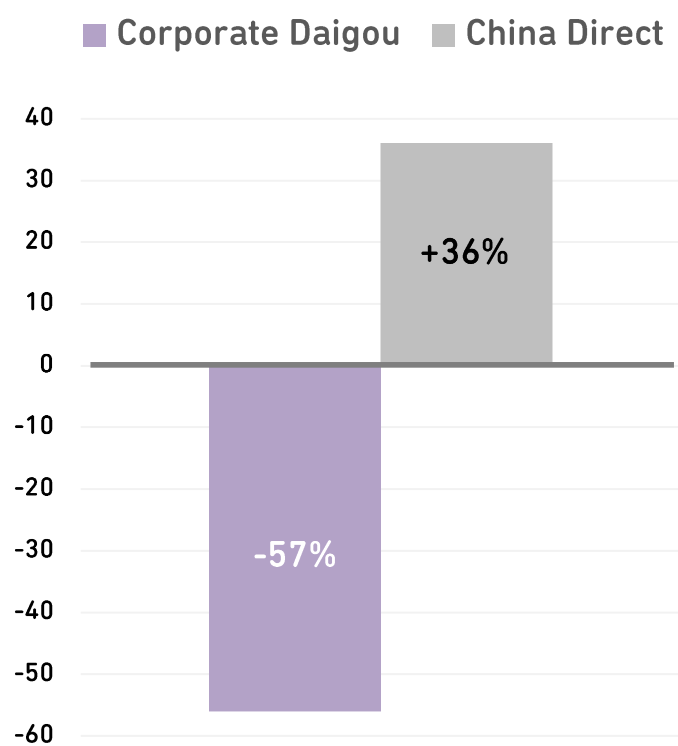
GROWTH MOMENTUM **INTERRUPTED BY CHANNEL SHIFTING**

Total Bubs Goat Formula direct sales to China increased significantly during the first half, although only partially off-setting the COVID-led disruption to the much larger contribution from the Daigou channel, caused by international border closures and increased air freight costs.

Bubs® Goat Formula 1H FY21 total gross revenue[1] direct to China, including CBEC & MBS channel.

+36% pcp

BUBS GOAT INFANT FORMULA
1H FY21 GROSS REVENUE[1] GROWTH (%) pcp

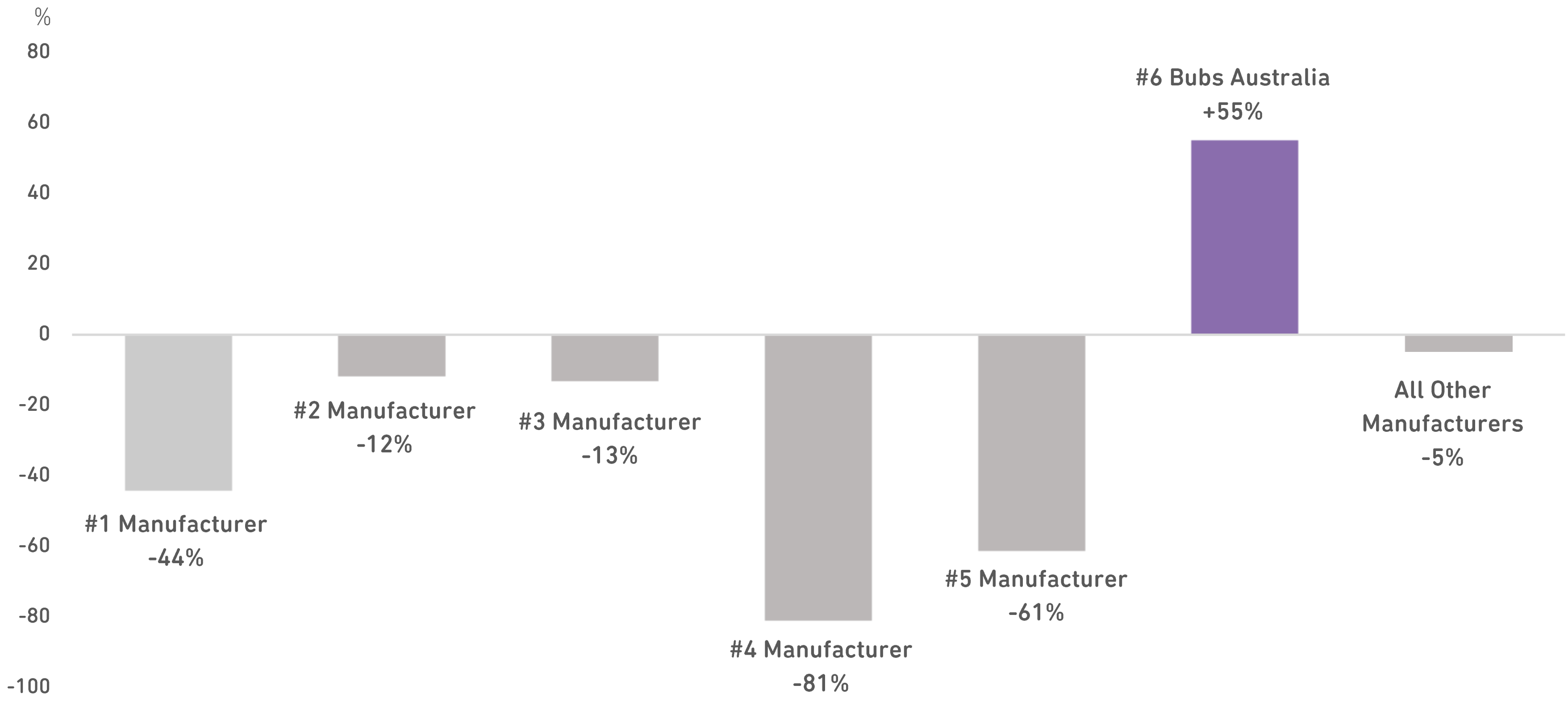


[1] Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

BUBS AUSTRALIA IS THE **CLEAR LEAD CHALLENGER**

Total infant formula category scan sales in Australian grocery and pharmacy retailers have also been heavily impacted by the demand shock in the Daigou channel. Despite this severe contraction, **Bubs® remains in high scan sales growth, narrowing the gap with industry giants.**

1H FY21 INFANT FORMULA CATEGORY RETAIL SCAN DOLLAR SALES (%) GROWTH[1] BY MANUFACTURER ON PRIOR YEAR



1. IRI Scan value scan sales data, Coles, Woolworths and Chemist Warehouse combined 26 weeks to 3.01.2021.

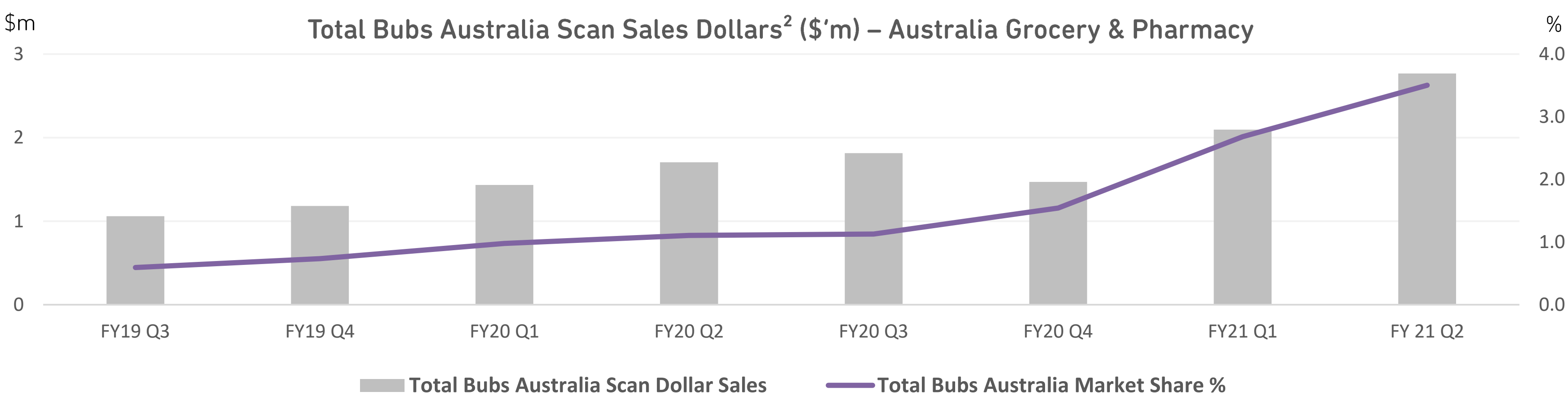
BUBS AUSTRALIA **OUTPERFORMS THE CATEGORY**

Bubs total **market share triples on pcp, now 3.5%[2] of total IMF category**. Bubs continues to be the **fastest growing infant formula manufacturer[1] in Australia**, with increasing scan sales volume, value and market share, demonstrating strong brand traction with Australian families.

28.6%[1]
1H FY21 market share
Bubs Goat Infant Formula share of total Goat segment.
+5% pcp
Bubs Infant Formula 1H FY21 gross revenue[3]

No.1
Goat Milk Formula brand in Chemist Warehouse[2]. No.2 in Australian grocery[2].
+23.7%[2] scan sales growth on same period last year.

No.2
Organic Formula brand in Australian grocery and pharmacy retailers.
+173%[1] pcp scan sales growth on 1H FY21.



[1] IRI Scan value sales Dollars ('$000) data, Coles, Woolworths and Chemist Warehouse combined 26 weeks to 3/1/21
[2] IRI Scan value sales Dollars ('$000) data, Coles, Woolworths and Chemist Warehouse combined for 13 weeks ending 3/1/21
[3] 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.

BUBS GOAT FORMULA REMAINS **OUR MOST PROFITABLE SEGMENT**

Bubs Goat Infant Formula product margin[1] was consistent with FY20 despite COVID disruption to most profitable channel routes.

34%

Goat Infant Formula product margin[1] Retained.

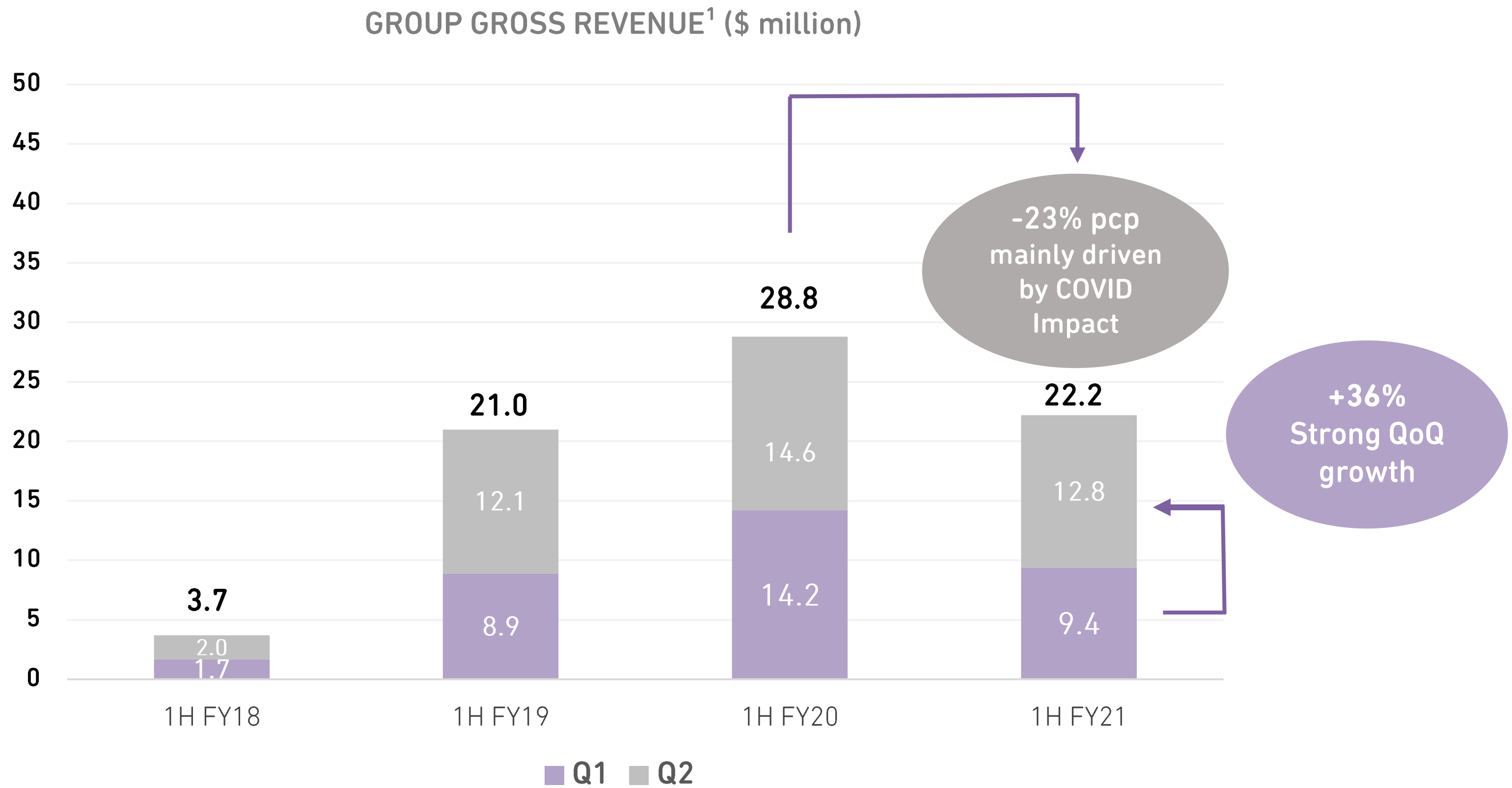
[1] Gross margin is calculated as (Revenue – Production Costs) / Revenue

FINANCIAL **PERFORMANCE**

14

1H FY21 **GROUP FINANCIAL PERFORMANCE**

First half growth momentum was restricted due to COVID-led channel disruption, although swift recovery was evident in the second quarter with **strong quarter-on-quarter turnaround**.



[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

FINANCIAL **OVERVIEW**

	1H FY21 ($m)	1H FY20 ($m)	% change
Gross revenue[1]	22.2	28.8	-23%
Revenue	18.3	27.1	-33%
Gross margin	-1.5	6.1	
Operating expenses:			
Distribution	1.1	0.8	44%
Marketing	3.8	4.8	-21%
Employee costs[3]	3.0	2.8	4%
Admin & other[4]	3.5	1.7	105%
Statutory EBITDA loss	14.4	5.3	174%

COVID disruption has adverse impact on Gross Margin

- Group gross margin decreased to $1.5 million loss. This was primarily due to inventory provision of $3.1 million and the need to sell excess bulk powder inventory at a loss due to Covid driven softening demand and prioritisation decision to conserve cash.
- Short-term changes in channel mix has also had an adverse impact.
- Bubs Goat Infant Formula product margin[2] was 34% at 1HFY21 which is consistent with FY20. Group gross margin excluding inventory provision and bulk powder sales is 16%.

Increased trade investment in response to shifting Channel mix

- The widening gap between Gross Revenue[1] and Revenue is due to increased trade co-op investment, as recognised under the revenue standard AASB 15.

Disciplined OPEX Management

- Distribution costs/Gross Revenue[1] % at 5% compared to 3% pcp.
- Marketing costs decreased 21% due to domestic brand marketing investment being re-directed into in-channel activity in the short-term.
- Employee costs[3] remained consistent with FY20.
- Increased admin costs[4] mainly due to bad debts provision and increased costs for IP protection in new international markets.

[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.
[2] Gross margin is calculated as (Revenue – Production Costs) / Revenue.
[3] Employee costs do not include share based payments.
[4] Administration and other costs do not include depreciation and amortisation.

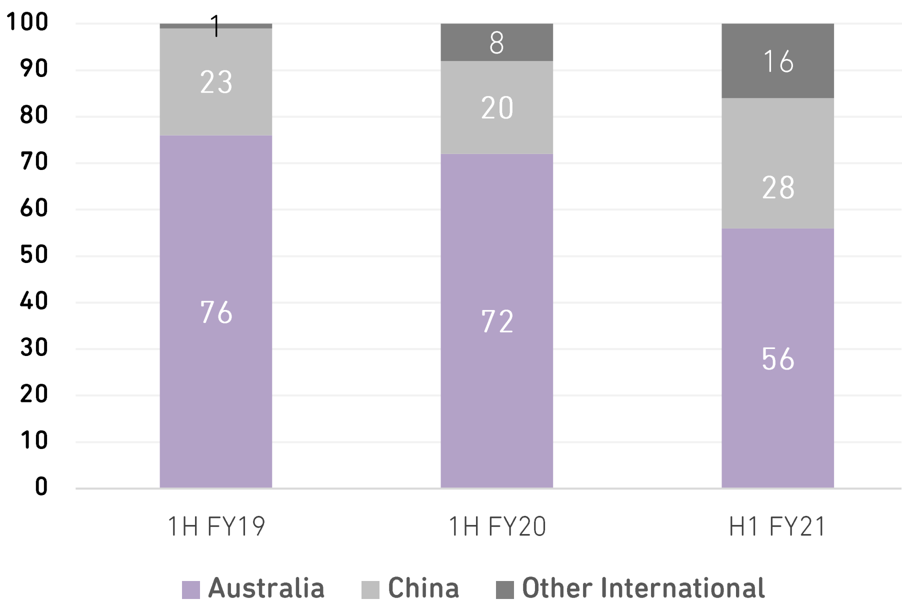
1H FY21 **MARKET AND PORTFOLIO EXPANSION**

Multiple revenue streams and growth drivers across Australia and Asia.

REGIONAL DIVERSIFICATION

International expansion strategy continues with advances in China and new markets across SE Asia.

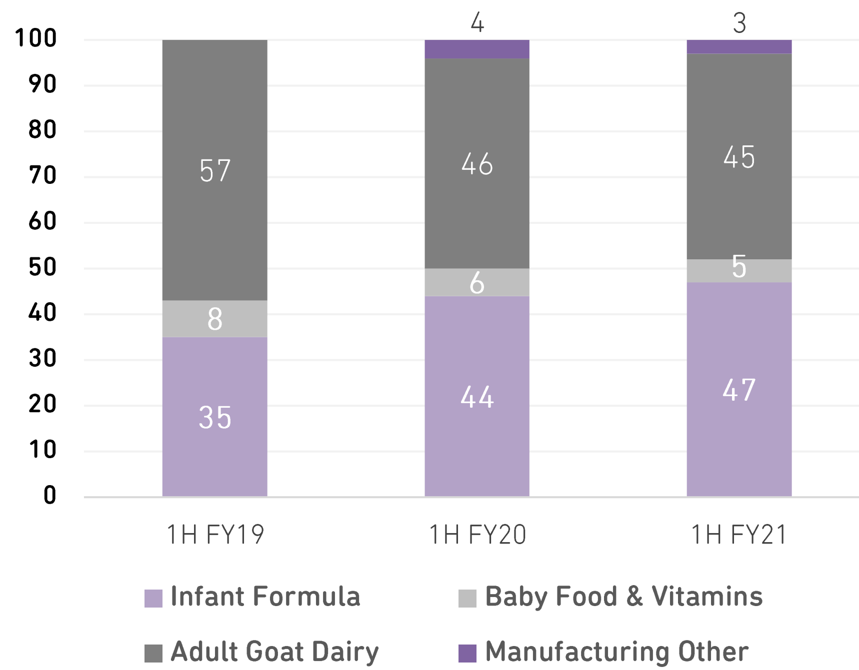
REVENUE CONTRIBUTION (%)



BALANCED PRODUCT MIX

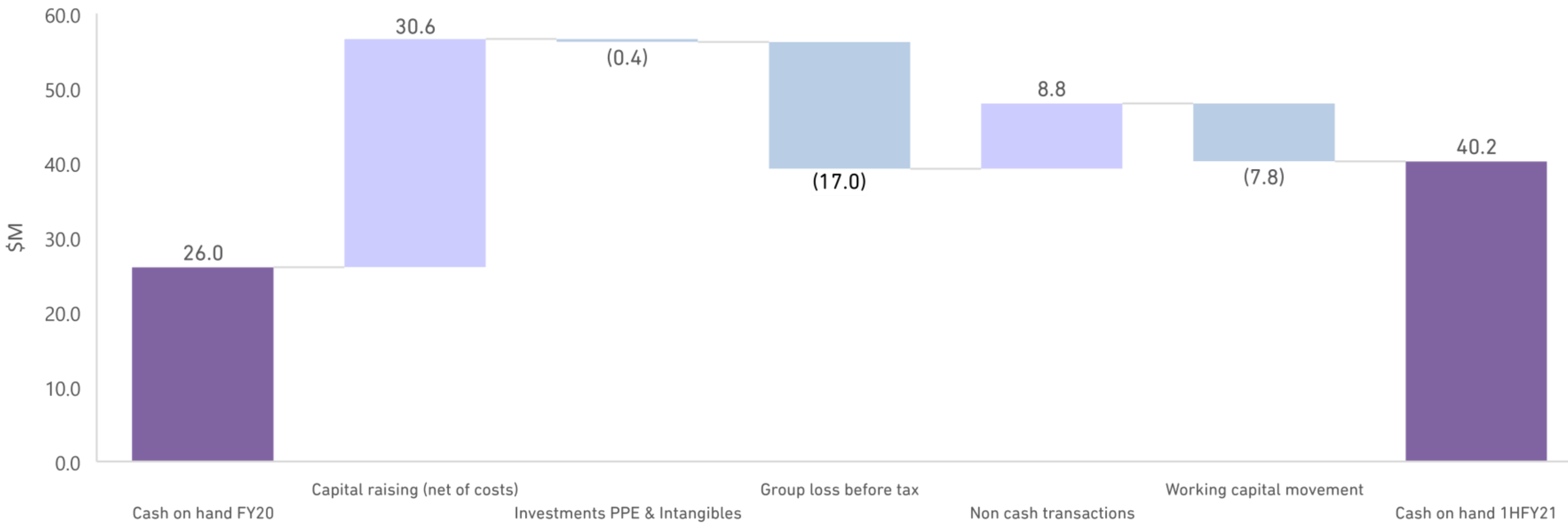
Investing in driving Infant Formula growth as the most profitable portfolio segment.

PRODUCT PORTFOLIO REVENUE CONTRIBUTION (%)



1H FY21 **ROBUST BALANCE SHEET**

Managed working capital and inventory position throughout a volatile period.



Working capital movement driven by increased inventory position

- Finished goods position has improved since 30 June 2020 with % on total inventory decreasing from 53% to 29%.
- Raw material position (mainly bulk powder) increased and remains high due to the foreseen requirement in 2H FY20 to carry a higher level of inventory to protect potential supply chain disruption during challenging COVID conditions, as well as responding to sudden fluctuations in demand caused by pantry stocking across multiple markets. Subsequently, border closures led to severe disruption in the Daigou channel resulting in a significant shortfall in 1H FY21 forecasted demand.
- Realisation of our milk pool has been reset to ensure supply is managed appropriately to meet adjusted future demand forecast.

SUSTAINABLE **GROWTH RESPONSE**

EXECUTIONAL **PRIORITIES**

Focus on driving profitability through increasing operating efficiencies and effectiveness.

1. Deep dive into **operating productivity and cost savings across the end-to-end value chain**, including procurement, warehousing and distribution, whilst ensuring supply chain resilience.

2. **Heightened inventory transparency** throughout layers of the eco-system to reduce working capital locked up in inventory and minimise future write-off risk.

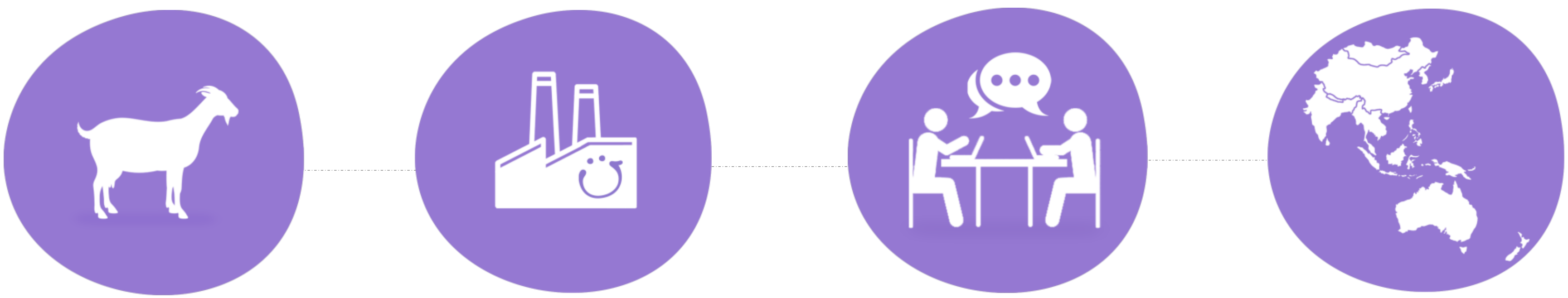
3. **Targeted price adjustments and tactical promotional plans** to stimulate user acquistion, whilst protecting premium price architecture.

4. Redirecting investment into online engagement in response to accelerated Chinese consumer trends towards **social commerce, online-to-offline and ecommerce marketplaces**.

5. Implementing **range rationalisation** on non-core products.

KEY PILLARS TO **SUSTAINED PROFITABLE GROWTH**

Reprioritisation of immediate strategic focus to ensure we are fit for purpose in the "next-normal"



1. Core Goat Dairy Focus
2. Gross Margin Improvement
3. Daigou 2.0, facilitated social commerce.
4. Regional Expansion

KEY INITIATIVES TO **IMPROVE GROUP GROSS MARGIN**

Short-term response to improve product margin in branded products:

1. Direct investment towards accelerating growth of greatest contributing portfolio segment with highest margin; Bubs Goat Infant Formula.
2. Actively drive revenue growth in more profitable China channel routes; Corporate Daigou, cross-border e-commerce and O2O.
3. Domestic co-op trade spend investment (as a reduction of gross revenue) was skewed heavily to 1H FY21 with considerably less investment committed in 2H FY21.
4. Major product margin improvement planned for CapriLac® fresh liquid milk in 2H FY21 due to improved supply chain efficiencies.
5. Closely monitor inventory position to meet the pace of recovery in channel routes to China.

Enhanced focus to drive long-term profitability:

1. Continued focus on optimising Channel and Product mix.
2. Improve supply chain cost efficiencies due to scale and management initiatives from farm to finished goods.
3. Balance domestic co-op trade spending with brand marketing investments to appropriately support channel contribution.

FOCUS ON OUR **CORE GOAT DAIRY PROFIT CENTRES**

Drive goat milk value conversion as **highest and best use of our core asset** across our more profitable product lines in our more profitable channels alongside our strategic partners in Australia and China.

Bubs®
Goat Infant Formula

Chemist Warehouse Discount Chemist · Woolworths · coles · OZ Corporation · 天猫 TMALL.COM

CapriLac®
Goat Milk Powder

OZ Corporation · 天猫 TMALL.COM · Theland

CapriLac®
Fresh Goat Milk

coles · Woolworths

CHINESE CONSUMER **DEMAND FOR BUBS® GOAT FORMULA GROWS**

Integrated social marketing campaigns fueled by KOL's and KOC's successfully drive consumer engagement, e-commerce traffic and user acquisition on cross-border ecommerce marketplaces.

+121%[1]

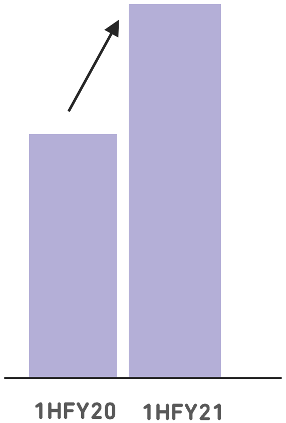
1H FY21

Bubs Goat Milk consumer offtake sales on Tmall Global pcp.

Continued success built on Alibaba strategic partnership.

+24%

1H FY21 Bubs Goat Infant Formula gross revenue[2] growth pcp to China CBEC channel.



[1] Bubs Goat Milk Formula GMV (Gross Merchandise Value) 1H FY21 growth pcp from Tmall Global platform data.
[2] 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.

COMPLETED **SUCCESSFUL CAPRILAC® RE-LAUNCH**

Now set to expand into new markets, new channels and new occasions.

NEW
Fresh Goat Milk
with pack upgrade. Launched January 2021 in Coles and Woolworths.

FRESH LIQUID GOAT MILK

- Improved product margin[1].
- Exploring export opportunities in Hong Kong and Singapore.

No.1
goat dairy brand on Tmall Global over Double 11 period [2].

DRIVE VALUE GROWTH

- CBEC partnership with The Land.
- Continue to drive user acquisition via social commerce.

NEW
Product Launch
Double addressable market size[3] with registered General Trade products.

GENERAL TRADE MARKET ACCESS

- Chinese labels successfully registered.
- Distribution into bricks and mortar general trade stores in Q4 FY21.

[1] Gross margin is calculated as (Revenue – Production Costs) / Revenue.
[2] Q2 FY21 official results in unit sales data CapriLac® from Tmall Global.
[3] Euromonitor, expert interview.

SUPPORTING **DAIGOU CHANNEL 2.0 REACTIVATION**

Significant upside and long-term growth potential via **Daigou facilitated e-commerce and O2O**.

China is set to be the first country where e-commerce sales outstrip bricks-and-mortar retail in 2021[1].

- Despite short term COVID disruption to the outbound Daigou channel, Bubs' Corporate Daigou partner and Top 10 shareholder, AZ Global Corporation (**myaz.com**), continues to evolve and invest heavily in the Channel in response to macro forces and changing Chinese consumer trends with the **pandemic accelerating the expansion of e-commerce and rapid digitisation of traditional trade**.
- **Corporate Daigou sales momentum continues to recover** and we expect its Channel sales contribution to normalise throughout CY21 and return to pre-COVID levels in CY22.
- Adapted business model towards Daigou facilitated omnichannel selling, including online-to-offline, open source livestreaming e-commerce and social selling, with delivery **ex-Australia or consolidated via cross border warehouses within China**.
- The Daigou channel is merging with CBEC and is **no longer considered a 'grey channel'** with legitimacy established via the implementation of the Chinese government tax system.
- Bubs plans to enter **1,000+ Online-to-Offline stores in 2H FY21**.

Top Mum & Baby Key Opinion Leader
and Bubs® key Brand Influencer.
NicoMama
30M Followers

[1] eMarketer Research Report, 10 Feb 2021.

ACCELERATE **ASIAN EXPANSION**

Significant sales momentum continues for growth across new Asian markets, with export gross revenue[1] outside of China increasing +44% 1H FY21pcp[2].

Secured FY20

Hong Kong

Vietnam

Commenced 1H FY21

Malaysia

Singapore

Planned Launch 2H FY21

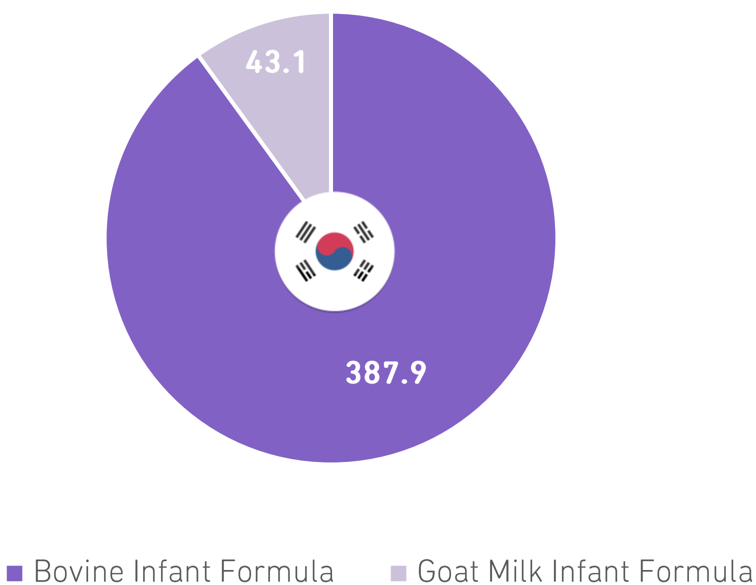
South Korea

[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.
[2] Includes branded products and raw ingredient sales that occurred in New Zealand or China.

NEW MARKET **2H FY21 LAUNCH IN SOUTH KOREA**

Entering the world's **second largest Goat Infant Formula market**[1] with 10% category share.

$431m[1]
INFANT FORMULA CATEGORY VALUE
AUD ('000) mil$



Bubs has selected YP Corporation in South Korea as our nominated distribution partner:

- ✓ **YP Corporation have deep experience in the Mother & Baby category –** currently brand distributors for leading baby brands including, Pigeon and Holle Organic Infant Formula and Baby Food.
- ✓ **YP Corporation have a high market penetration in major online e-commerce platforms, including Coupang, as well as key offline stores –** 77% of total infant formula is purchased through online platforms. With remaining 23% sold via Hypermarkets, mother & baby stores and department stores.
- ✓ **YP Corporation have significant market experience across the important paediatric and hospital channel –** significant experience in building education and trust amongst health care professional market and ability to reach and educate throughout the consumer journey.

[1] Euromonitor, Expert Interview, IMF Market Value, Analyst Reports.

bubs

OUTLOOK

SUMMARY – ACTION PLAN

Operational action plan for building on strategic pillars in response to COVID-led channel disruption.

Key Priorities	Objective	How	When
Core Goat Dairy Focus	• Drive highest & best use of goat milk dairy source.	• Focus on two key hero brands across three core product segments. • Drive hero products Bubs® Goat Infant Milk Formula, CapriLac® Adult Powder and CapriLac® Fresh Milk. • Increasing Goat product brand penetration in key trading partners, including new online to offline channels.	2H FY21
Product Margin Improvement[1]	• Deliver profitable growth	• Optimise Channel and Product mix. • Implement supply chain cost efficiencies. • Balance trade spend and brand investment against appropriate channel contribution.	FY22
Daigou 2.0, facilitated social commerce	• Reactivate Daigou Channel 2.0 return to pre-Covid levels.	• Optimise channel investment to support facilitated online e-commerce sales, open source livestreaming e-commerce and social selling. • Replicate Daigou know-how to existing offline distribution points through O2O in China and Australia. • Redirect and increase brand marketing investment to drive China online awareness and new customer acquisition.	CY 2022
Re-balancing Inventory Levels	• Operational excellence.	• Implement transparent inventory management – work with key customer partners to balance demand forecast and milk supply conversion. • Manage excess milk supply with industrial powder sales, if the Daigou corporate channel sales recovery is slower than expected.	2H FY21

[1] Gross margin is calculated as (Revenue – Production Costs) / Revenue.

OUTLOOK

Bubs is well placed with **strong foundations, brand share growth and a robust balance sheet** to go forward with a sustainable expansion strategy to emerge ahead of industry peers once the crisis has subsided and market dynamics normalise.

Responding to channel interruptions with our unique strategic pillars

The impacts of the pandemic have been prolonged and market conditions are likely to remain challenging in the short-term, thereby limiting our growth trajectory for the remainder of FY21. Nonetheless, the Company expects to achieve modest half-on-half gross revenue growth in the second half of FY21 and return to a more aggressive growth profile in FY22.

The sudden short-term collapse of the Daigou channel led to an abrupt reduction in sales, resulting in a heavy loss. However, the Company has for the most part proven to be resilient to the shocks caused by the pandemic, due to:

- Organisational agility allowing for quick decisions in quantifying impact, recognising opportunities and adapting China route-to-market strategies;
- Vertically integrated business model ensuring supply chain security and flexibility; and
- Strong collaboration with dominant strategic channel partners.

We are partnering with our Corporate Daigou to embrace channel structure change and navigate logistical barriers presented throughout the pandemic. By November 2020, Daigou sales had partially recovered in the new form and we are seeing sales momentum in the channel. We remain highly confident in the long-term viability of the Daigou channel, and expect its contribution to our business to materially grow as Chinese consumers gravitate to the rapid rise of online demand with the amalgamation of peer-to-peer transactions, social commerce, second-hand ecommerce marketplaces and online-to-offline (O2O). We also believe this is the most profitable channel that also builds brand awareness in China in the short to medium term.

The Company remains optimistic that its business model, cash reserves and adapted route-to-market strategies in response to accelerated market trends will build on its existing strong foundations to reignite future profitable growth in the 'next normal'.

bubs®

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