



Bubs Australia Limited
ACN 060 094 742
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VIC 3175 Australia

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Q1 FY23 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

BUBS GAINS 0.4% USA MARKET SHARE AND 9% OF ORGANIC CATEGORY IN FIRST 13 WEEKS¹

Drives 28% gross revenue growth pcp with infant formula more than doubling

- Q1 group gross revenue: \$23.6m, up 28% pcp
- Bubs[®] Infant Formula Q1 gross revenue more than doubled, up 109% pcp
- Bubs achieves record market share in Australian retail with 56% of the total goat formula category²
- USA highest margin formula gross revenue of \$9.6m contributed 40% of Q1 group gross revenue
- USA total market share at 0.4%, and 9% of Organic/Health formula category, in first 13wks¹
- Bubs scan sales rank No.2 of 8 approved imported brands; +12.3% compounding weekly growth rate¹
- U.S. FDA regulatory pathway for permanent access by October 2025 confirmed
- Amazon.com invites Bubs to be a direct retailer under first-party (1P) relationship
- China Daigou Infant Formula Q1 gross revenue increased 20% pcp
- Bubs leads the corporatisation of the M2C model in China; developed by AZ Global
- Strategic partnership established to enable SAMR (GB) registration pathway for Bubs[®] China label
- Cash position: \$64.6 million

Melbourne, 31 October 2022: Infant nutrition and dairy specialist Bubs Australia (ASX: **BUB**) submits the Quarterly Activities Report and Appendix 4C Cashflow Statement for the first quarter, period ended 30 September 2022.

Bubs Founder and Chief Executive Officer, Kristy Carr said: "In the first quarter, Bubs growth momentum continued with gross revenues up 28 percent compared to the same period last year, spearheaded by our infant formula gross revenue more than doubling, accounting for some 92 percent of business across all markets, and enjoying a strong growth trajectory on prior comparative period.

"In Australia, Bubs[®] Infant Formula reached new market share peaks across major retailers – Coles, Woolworths and Chemist Warehouse. In the USA, our retail footprint continued to expand with some 6,500 stores and we established a direct first-party account with Amazon, as we gained 9% share of the organic-health segment and 0.4% of the total bricks-and-mortar retail market in just thirteen weeks¹. We also saw strong pcp growth in our infant formula sales through our Corporate Daigou partner, AZ Global. However, shipments of adult goat milk powder and B2B ingredient sales to China and SE Asia were significantly down during the quarter compared to prior year due to lockdowns and channel disruption, as we proactively managed inventory in the channel to restore premium pricing stability across this commodity portfolio.

"The most important developments, however, come in the shape of both our long-term USA and China strategies, as we gain regulatory access to the two largest markets in the world. In the U.S. we lodged a 'Letter of Intent' with the U.S. Food and Drug Administration (**FDA**) under its transition plan for continued enforcement discretion for all six Bubs[®] Infant Formula products and committed to fully complying with applicable requirements for a permanent regulatory authorisation by October 2025.



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"We are in the due diligence phase of finalising our joint venture and supply agreements with reputable China-based infant formula manufacturing and supply entities, Zhitong (Hangzhou) Health Technology Co., Ltd, Zhikang (Hangzhou) Health Technology Co., Ltd and Heilongjiang Anjia Dairy Co., Ltd. Under the joint venture and supply arrangements, Bubs has applied to secure approval of an existing State Administration for Market Regulation (**SAMR**) brand slot (subject to SAMR approval) with the intent of rebranding as Bubs® and targeting the launch of a new GB compliant ultra-premium range in the second half of FY23.

"Taken together, the diversification of our infant formula portfolio across Goat, Organic and A2 Protein fast-growing category segments, an exciting acceleration of our U.S. journey, and the development of the M2C model and entry into General Trade in China, we remain optimistic about the year ahead," said Mrs. Carr.

PERFORMANCE BY CATEGORY [gross revenue]

- **Bubs® portfolio:** up 108% pcp, contributing 95% of quarterly sales
 - Total infant formula sales were up 109% pcp, contributing 92% of quarterly sales
- **Adult goat dairy portfolio:** down 82% pcp, contributing 4% of quarterly sales
- **B2B:** down 91% pcp, contributing 1% of quarterly sales

PERFORMANCE BY CHANNEL [gross revenue]

- **Australia:** up 18% pcp, contributing 21% of quarterly sales
 - Domestic retail sales of infant formula were up 29% pcp
- **China:** down 21% pcp, contributing 33% of quarterly sales
 - Infant formula sales were up 4% pcp (Daigou infant formula sales were up 20% pcp)
 - Adult goat milk powder sales were down 94% pcp
- **International:** up 145% pcp, contributing 46% of quarterly sales
 - Infant formula sales were up 3,212% pcp
 - USA Q1 sales were \$9.6m, contributing 40% of quarterly sales

STRATEGIC DEVELOPMENTS: REGULATORY PATHWAYS

During the quarter, the Company realised two important regulatory milestones through crystallising pathways to: 1) the tightly held U.S. infant formula market, and 2) producing Chinese label product for China's General Trade in the largest infant formula market in the world. Only a select few multinational companies, which are valued between AUD16 billion to AUD460 billion, have the same level of regulatory access to both key markets. It reflects Bubs' agility to finding unique growth markets that are not available to others.

Over the next several years, these two pathways are likely to both significantly exceed the current largest revenue source of English label products into China via the cross-border e-commerce.



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AUSTRALIA: Bubs achieves record market share with 56% of the total goat formula category

Domestic retail gross revenue of Bubs® Infant Formula during the first quarter was up 29 percent pcp. Bubs continues to post consecutive quarter-on-quarter retail scan sales growth in Australia, recording new share peaks in Coles, Woolworths, and Chemist Warehouse, and remains the fastest growing infant formula manufacturer in Australia with over 30 percent increase in scan sales, and outgrowing the market eight-fold on a Moving Annual Total (MAT) basis. Bubs® market share stands at a record 4.8 percent and is the category leader in goat infant formula, holding 56 percent share of the total goat sector in Australia.²

During the quarter, the Company confirmed incremental formula ranging of Bubs Organic® Formula in 28 Harris Farms stores in NSW, and Bubs Supreme™ A2 Protein Formula in 63 Baby Bunting stores.

USA: Bubs® products ranged in over 6,500 stores with scan sales growing 12.3% week-on-week¹

Sales from the U.S. market contributed 40% of total Q1 group gross revenue, as Bubs® retail footprint expands to over 6,500 stores across the country. Nearly one million tins of Bubs® Infant Formula have been dispatched to the USA since all three product ranges were approved under the FDA's Enforcement Discretion.

Of the eight international manufacturers that have received FDA exemption, Bubs® ranks second and represents around one third of the international brands' retail scan sales value over the past 13 weeks, accounting for 0.4% share of the total U.S. infant formula market¹, and 9% of the organic/health sub-segment¹, across all bricks-and-mortar retail stores. Over-the-counter sales have been compounding at 12.3% growth rate week-on-week¹ as more stores are activated.

Bubs® Infant Formula can now be found in Target, Walmart, Kroger, Albertson's/Safeway, Wholefoods, Meijer, Hy-Vee, and Buy Buy Baby, as well as health e-commerce retailers; Thrive.com and Vitacost.com.

In addition, Bubs has been invited to join Amazon.com under a first-party (1P) relationship whereby Amazon.com becomes the direct retailer. Moving forward, Amazon will place purchase orders in bulk directly with Bubs which is expected to spearhead our D2C e-commerce strategy.

Bubs has confirmed its intention to work with the FDA to establish a basis for a permanent presence in a US\$5.6 billion market. Management is committed to and are confident of meeting the requirements for permanent market access under the *FDA Guidance for Industry – Infant Formula Transition Plan for Exercise of Enforcement Discretion (Transition Plan)*.

The Australian label Bubs® Infant Formula range of six products already satisfies U.S. nutrient requirements as per the U.S. Infant Formula Act for iron-fortified infant formula and will continue to be imported and seamlessly available on shelf for consumers in the USA throughout the transition period to October 2025.

CHINA: Strategic focus on Manufacturer-To-Consumer (M2C) omnichannel model

Across the infant formula category, a significant number of brands have oversupplied the market, including local Chinese brands. This has created a significant decline in margin across all distribution partners. In addition, the cost of doing business has also increased on cross-border e-commerce, particularly as it relates to advertising spend. The category issue was exacerbated through a subdued result during the 6.18 shopping festival, and the oversupply by other brands is expected to continue through to the upcoming Double 11



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festival, which is likely to cause distributors and participants to look for alternative, quality infant formula brands that can provide stability of margin, and supply with international and established reputation.

Bubs has worked with its strategic partner in closely monitoring the market. The team have been focused on price discipline and ensuring supply sell-in is aligned with final offtake demand, and the distribution partners are focused on introducing new customers to the brand, rather than reselling to other distributors and erode the pricing architecture. For an emerging brand to succeed, there must be limited legacy issues in the channels within the window of opportunity, while having some form of brand awareness amongst the consumers.

During the quarter, Bubs commenced official introduction of the 'Manufacturer-to-Consumer' (M2C) model to its distribution participants in the systems. The strategy is designed to shorten the value chain and led by several key unique software applications developed by its distribution partner, AZ Global. The new M2C model provides a proprietary system that:

- provides real time product visibility and sell-through data for Bubs
- enables participants to become brand ambassadors and benefit in introducing products to their respective communities in a 'low touch' manner without working capital needs, and with consistent brand marketing content provided by Bubs
- all products are legally imported, and tax cleared in preparation for China's impending 'Golden Tax System Phase IV' due to officially commence from 1 January 2023

The strategy can be used by everyone in Australia or China, including Mother and Baby stores. Over the last several weeks, the Company has seen a surge in interest from existing and new participants, with its core interest in the distribution of Bubs Supreme™ A2 Protein products, given its stable pricing and attractive margin structure. The Company expects to engage in an aggressive expansion plan that will provide a new level of corporatised infant formula and brand distribution strategy into China and expects to be able to discuss in more detail in early 2023.

In the short term, we expect China sell-in revenue to be constrained throughout the second quarter due to the phasing of the recruitment channel transitioning to the new M2C model but remain optimistic on positive momentum returning post Chinese New Year.

SUCCESSFUL CAPITAL RAISING TO SUPPORT USA EXPANSION

During the quarter, the Company launched and completed a fully underwritten equity raising of approximately \$63 million at \$0.52 per share by way of an institutional placement, which was oversubscribed, and an accelerated non-renounceable rights issue. The Placement and Institutional Entitlement Offer were completed on 5 July raising \$40.1 million. The Retail Entitlement Offer to raise \$22.9 million closed on Tuesday 26 July.

The placement provided additional working capital to support this accelerated expansion, including building inventory to expand the Company's presence in the USA, and consequently enabling the Company to triple the capacity of its processing and canning facility. Planning and procurement for a second high-capacity canning line are underway.



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CASH POSITION

Bubs held \$64.6 million in cash reserves as at 30 September 2022. The Group's total cash on hand and unused finance facilities available as at 30 September 2022 is sufficient to fund the business operating activities for 9 quarters based on FY23 Q1 net cash used in operating activities.

ASX ADDITIONAL INFORMATION

Pursuant to ASX Listing Rule 4.7C.1, and as outlined in the Appendix 4C, the Company advises it spent: \$27.9 million on product manufacturing and operating costs, \$4.8 million on administration and corporate costs, \$2.5 million on staff costs, and \$4.0 million on advertising and marketing.

Details of the business activities are found within this report. Pursuant to ASX LR4.7C.3, the Company advises that payments of \$375,383 to related parties are to key management personnel.

The Bubs Australia Appendix 4C Quarterly Cashflow Statement for the period ended 30 September 2022 is attached. The Report was lodged with the ASX on 31 October 2022.

This release is approved by the Board of Directors.

FOOTNOTES

¹ IRI Scan Data: Value Sales \$'s 13 weeks to 09/10/22; Total USA Multi-Outlet (excludes online eCommerce)

² IRI Scan Date: Value Sales \$'s 13 weeks to 25/09/22; Total Australian Grocery & Pharmacy scan sales

END

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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: bubsaustralia.com

Investor Centre: investor.bubsaustralia.com

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity
BUBS AUSTRALIA LIMITED (ASX:BUB)
ABN
63 060 094 742
Quarter ended ("current quarter")
30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	31,441	31,441
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(27,899)	(27,899)
(c) advertising and marketing	(4,044)	(4,044)
(d) leased assets	(5)	(5)
(e) staff costs	(2,469)	(2,469)
(f) administration and corporate costs	(4,825)	(4,825)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2	2
1.5 Interest and other costs of finance paid	(59)	(59)
1.6 Income taxes paid	(106)	(106)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(7,964)	(7,964)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	(4,000)	(4,000)
(c) property, plant and equipment	(85)	(85)
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(4,085)	(4,085)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	60,348	60,348
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	60,348	60,348

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	16,311	16,311
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(7,964)	(7,964)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4,085)	(4,085)

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	60,348	60,348
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	64,610	64,610

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	63,364	15,066
5.2	Call deposits	1,246	1,245
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	64,610	16,311

6. Payments to related parties of the entity and their associates

6.1	Aggregate amount of payments to related parties and their associates included in item 1	375
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

**Current quarter
\$A'000**

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

Salary payments to Key Management Personnel \$375,383.

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
	-	-
	10,000	2,000
	-	-
	10,000	2,000

7.5 **Unused financing facilities available at quarter end**

8,000,000

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

NAB Trade Refinance facility 5.36% per annum secured with the maturity date 30 September 2023.

8. Estimated cash available for future operating activities

\$A'000

8.1 Net cash from / (used in) operating activities (Item 1.9)

(7,964)

8.2 Cash and cash equivalents at quarter end (Item 4.6)

64,610

8.3 Unused finance facilities available at quarter end (Item 7.5)

8,000

8.4 Total available funding (Item 8.2 + Item 8.3)

72,610

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

9

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

31 October 2022

Date:

The Board of Directors

Authorised by:
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.