



Bubs Australia Limited
ACN 060 094 742
23-29 Nina Link, Dandenong South
VIC 3175 Australia

1800 2827 2878 (1800 BUBS AUST)
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Q2 FY23 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

BUBS AUSTRALIA FIRST HALF GROSS REVENUES LARGELY CONSISTENT WITH PRIOR YEAR

Strong Domestic & USA growth offset by China's constrained revenue largely due to COVID policy impacts

- **1H23 Group Gross Revenue: \$37.9m, down 1% pcp**
- **1H23 Group Gross Revenue for branded products (excl. B2B and bulk powder sales): \$36.5m, up 16% pcp**
- **Q2 Group Gross Revenue: \$14.3m, down 28% pcp**
- **Australian retail high growth momentum continues: Q2 Gross Revenue up 28% pcp and 1H23 up 23% pcp, with Bubs® Infant Formula sales growing at nearly 7x the market growth rate¹**
- **China Q2 Gross Revenue down 66% pcp as prolonged COVID lockdowns caused significant disruption**
- **International Q2 Gross Revenue (inc. USA) up 26% pcp, and 1H23 up 93% pcp**
- **U.S. permanent regulatory pathway confirmed with FDA 'Letter of Acknowledgement' received**
- **Finalised definitive agreements with China JV partner and lodgement of SAMR submission for Bubs® China Label Infant Formula under the new GB standards, providing a regulatory pathway into General Trade**
- **Bubs awarded '2022 Australian Exporter of the Year' at 60th Australian Export Awards**

Melbourne, 31 January 2023: Infant nutrition and dairy specialist Bubs Australia (**ASX: BUB**) today lodged with the Australian Securities Exchange its Q2 FY23 Quarterly Activities Report and Appendix 4C Cashflow Statement.

Bubs Founder and Chief Executive Officer, Kristy Carr said: "As foreshadowed at the Company's Annual General Meeting in November, group gross revenues for the first two quarters are largely consistent with the first half of last year, arising from strong year-on-year growth in Australia and the United States being offset by the impacts of China's now abandoned COVID-zero policy on channel dynamics and consumer purchasing activity.

"Bubs' domestic growth momentum continued with quarterly gross revenue up 28 percent compared to the same period last year. Bubs has consolidated its leadership position in the goat infant formula segment, now representing 58% of the total goat formula market in Australia¹.

"In what was in effect a closed market controlled by a few multinational corporations, our expedited permanent regulatory pathway into the United States has been confirmed by the Food and Drugs Administration (FDA) in a 'Letter of Acknowledgement' received on 20 December 2022. The Letter of Acknowledgement recognises Bubs' commitment to, and capability to comply with, the FDA's requisites for permanent access for all six Bubs® Infant Formula products by October 2025. Bubs has to date shipped over one million tins to the U.S.

"China's prolonged lockdowns during the quarter delayed our transition to Bubs' new 'Manufacturer to Consumer' (M2C) model in partnership with AZ Global, as we continue to sell through initial pipe-fill orders from previous quarters, leading to a 66 percent fall in gross revenues compared to the prior corresponding period.

"Nonetheless, the impact on group gross revenues from infant formula was limited to 10 percent for the quarter compared to the prior corresponding period, and strong pricing discipline was maintained across all markets. Group gross revenue for branded products in the first half of FY23 (excluding B2B and low margin bulk powder sales) was up 16 percent compared to the prior corresponding period.



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"Meanwhile, Bubs was proud to be awarded '2022 Australian Exporter of the Year' at 60th Australian Export Awards hosted by the Australian Trade and Investment Commission in Parliament House, citing Bubs rapid response to help an ally in need when the Biden Administration called for international help to alleviate a U.S. supply shortage," said Mrs Carr.

PERFORMANCE BY CHANNEL [Q2 gross revenue]

- **Australia:** up 28% pcp, contributing 42% of quarterly sales
- **International (inc. USA):** up 26% pcp, contributing 30% of quarterly sales
- **China:** down 66% pcp, contributing 28% of quarterly sales

PERFORMANCE BY CATEGORY [Q2 gross revenue]

- **Bubs® portfolio:** down 10% pcp, contributing 81% of quarterly sales
- **Adult goat dairy portfolio:** down 62% pcp, contributing 13% of quarterly sales
- **B2B:** down 62% pcp, contributing 6% of quarterly sales

Australia

Bubs continues to be the fastest growing infant formula manufacturer within the top six major manufacturers¹.

At 34 percent growth in scan sales value, Bubs® Infant Formula portfolio has grown at nearly seven times the market growth rate of 5 percent, delivering a quarter of the total market growth in absolute dollar value terms¹.

Bubs® continues to consolidate its leadership of the goat formula segment, now representing 58 percent of the total goat formula market in Australia¹.

At the same time, Bubs Organic® Grass-fed Formula continues to build momentum against the segment leader, delivering 42 percent growth in value scan sales on a moving annual total basis versus prior year¹.

United States

The United States is the second largest infant formula market globally, valued at US\$5.6 billion. Bubs is on track to meet regulatory milestones for permanent access to the U.S. market and working closely with the FDA and other stakeholders to help diversify America's infant formula supply chain and secure ongoing availability in the American market. Bubs has already made significant progress building trust and brand awareness with American consumers and healthcare professionals, and the Company continues to invest in employee, marketing, and regulatory expenses to consolidate its position and grow Bubs' consumer base.

As a result, Bubs has rapidly scaled its retail footprint during 1H23, which now stands at over 6,500 stores across 42 states, including the four largest retailers of infant formula; Walmart, Target, Kroger and Albertsons-Safeway, as well as health food chains like Whole Foods (which went live in October 2022 and accounted for 6 percent of offtake sales²), baby chains, drug stores, and e-Commerce marketplaces like Amazon. Amazon represented 20 percent of offtake sales² after only eight weeks of selling the Bubs® Infant Formula range.

¹ Total AU Grocery & Pharmacy Retail Scan \$'s to MAT w/e 18/12/22

² w/e data to 08/01/23 IRI Value Sales \$'s Total US Multi-Outlet NB. Excludes online



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We are now entering the re-stock phase after the initial 'Operation Fly Formula' pipe-fill with replenishment orders from our mass retailers and continue to improve store level execution and on-shelf availability. In addition, we continue to expand our distribution footprint with products rolling out to around 700 drugstores under the Rite Aid banner in February 2023.

Bubs has undeniably put goat infant formula on the map in the United States. The goat milk segment has grown from US\$90,000 to US\$2.7 million in the last 26 weeks, of which 94 percent has been supplied by Bubs.³ We believe the goat milk market segment has significant growth potential and is likely to follow similar growth trends experienced in recent years across Australia, New Zealand, Europe and Asia.

China

While affected during the recent lockdowns and supply disruptions due to the increased COVID outbreaks in major cities, China remains the world's largest market for infant formula and within that, the super-premium segment to which Bubs belongs. Following the change of China's COVID policy and border reopening, we expect the growth rate in China to accelerate in the second half.

During the quarter, the Company has bedded down its new M2C model which leverages a re-engineered Daigou Channel boosted by a strategic partnership with our principal corporate Daigou partner, AZ global. Under the M2C model, Bubs® Infant Formula is delivered tax-cleared from bonded warehouses in China. The embedded sales and inventory system provides end-to-end channel movement visibility. Following the easing of COVID restrictions, Bubs expects to expand its M2C distribution across Online-to-Offline (O2O) stores.

The Company finalised the long form agreements and associated arrangements which were contemplated by the binding term sheet signed in September 2022. Heilongjiang Ubeite Dairy Group Co., Ltd is not a party to any of these arrangements. As noted in the Q1 FY23 quarterly activities report, the binding term sheet provided for:

- the Company and Zhitong (Hangzhou) Health Technology Co., Ltd (Zhitong) to enter into a joint venture agreement (JV Agreement) and to establish a Chinese joint venture company; and
- the Company and the joint venture company to enter into a supply and sales agreement with Heilongjiang Anjia Dairy Co., Ltd and Zhikang (Hangzhou) Health Technology Co., Ltd (Supply Agreement).

The Company and Zhitong entered into the JV Agreement on 1 January 2023 and are now proceeding with the establishment of the joint venture company and the finalisation of the Supply Agreement.

The substantive obligations under the JV Agreement and the Supply Agreement are conditional on the State Administration for Market Regulation (SAMR) approving Heilongjiang's application to renew its existing registered SAMR goat infant formula brand slot licence for exclusive use under the Bubs brand.

During the quarter, the Company received confirmation that SAMR has formally accepted lodgement of Heilongjiang's application. Subject to approval by the SAMR, the renewed licence will enable Bubs® Goat Infant Formula product to be produced and sold under the joint venture arrangements.

Vietnam

Vietnam is the second largest market for infant formula in South-East Asia, valued at US\$1.6 billion annually⁴. In November 2022, Bubs entered into a direct partnership with Concung, Vietnam's leading Mother and Baby store chain with 750 stores and 18.5 percent share of the total infant formula market⁵.

³ 26 w/e data to 08/01/23 IRI Value Sales \$'s Total US Multi-Outlet NB. Excludes online

⁴ Euromonitor International from trade sources/national statistics Dairy Products and Alternatives

⁵ Nielsen IQ retail sales \$'s YTD ending Sep'22



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CASH POSITION

Bubs held \$51.4 million in cash reserves as at 31 December 2022. The Group's total cash on hand and unused finance facilities available as at 31 December 2022 was sufficient to fund the business operating activities for 4 quarters based on FY23 Q2 net cash used in operating activities.

Slower than expected consumer offtake in key markets and the transition to the new operating model in China have contributed to softer than anticipated revenues in 1H23. While the Company has delivered product margin⁷ improvement compared to FY22, soft performance and increased costs, coupled with inventory provision balance have contributed to an underlying EBITDA loss position in 1H23.

ASX ADDITIONAL INFORMATION

Pursuant to ASX Listing Rule 4.7C.1, and as outlined in the Appendix 4C, the Company advises it spent:

\$17.5 million on product manufacturing and operating costs, \$3.6 million on administration and corporate costs, \$3.1 million on staff costs, and \$3.4 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 \$295,886 to related parties are to key management personnel.

The Bubs Australia Appendix 4C Quarterly Cashflow Statement for the period ended 31 December 2022 is attached. The Report was lodged with the ASX on 31 January 2023.

This release is approved by the Board of Directors.

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

⁷ Product margin is calculated as (revenue – production costs) / revenue.

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")
31 December 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	14,035	45,976
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(17,457)	(45,356)
(c) advertising and marketing	(3,410)	(7,454)
(d) leased assets	(4)	(9)
(e) staff costs	(3,055)	(6,024)
(f) administration and corporate costs	(3,618)	(8,443)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	90	92
1.5 Interest and other costs of finance paid	(74)	(133)
1.6 Income taxes paid	(0)	(106)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(13,493)	(21,457)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	(4,000)
(c) property, plant and equipment	(178)	(263)
(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	(178)	(4,263)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	60,348
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	477	477
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	477	60,825

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	64,610	16,311
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(13,493)	(21,457)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(178)	(4,263)

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)	477	60,825
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	51,416	51,416

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	50,168	63,364
5.2	Call deposits	1,248	1,246
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)	51,416	64,610

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

Current quarter \$A'000
296
-

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 \$295,886.

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.

	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	-	-
7.2 Credit standby arrangements	10,000	2,000
7.3 Other (please specify)	-	-
7.4 Total financing facilities	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)	(13,493)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	51,416
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)	59,416
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	4

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 January 2023

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.