



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

1800 2827 2878 (1800 BUBS AUST)
info@bubsaustralia.com

28 April 2023

Q3 FY23 QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

Bubs Australia Limited (ASX:BUB) Group Gross Revenue¹ was down 10% for the quarter ending 31 March 2023 versus the prior corresponding period (pcp), with strong growth in the U.S. and Australia, offset by poor sales in China and other overseas markets.

Pleasingly, Group branded Gross Revenue was up 26% on pcp and Group infant formula gross revenue grew 46% on pcp, representing 72% of Group quarterly gross revenue.

“The period saw continued growth in the USA, with Gross Revenue up 116% on Q2 and further good progress against securing a permanent regulatory pathway. Expenditure management is an immediate focus of the board, and a strategic review of the global business has commenced,” said Bubs’ Chair, Ms Katrina Rathie.

Group Highlights

- Q3 Group Gross Revenue of \$15.8m was down 10% on pcp, up 11% on Q2
- Q3 Group Gross Revenue for branded products (excluding B2B and bulk powder sales): \$15.1m, was up 26% on pcp and up 14% on Q2
- Q3 Group Gross Revenue for Infant Milk Formula (IMF) was up 46% on pcp and up 7% on Q2
- Group Operating Expenses were up 74% on pcp and down 10% on Q2
- A strategic review of the global business has commenced after the board changes announced on 11 April 2023 and the company expects the review to be completed by 30 June 2023

Regional Highlights

- The USA business continues to build momentum with Q3 Gross Revenue of \$5.8m, up 116% on Q2
- Continued progress against the U.S. permanent regulatory pathway made with the Protein Efficiency Rating (PER) study underway with data due to be delivered by June 2023, and the Growth Monitoring Study (GMS) is also on schedule for September 2023
- China Q3 Gross Revenue down 56% on pcp, with significant amounts of finished goods inventory held in trade
- Mr Jackie Lin has been seconded to Bubs from C2 Capital to help the Board lead a strategic review of China operations, effective immediately
- Other International (excluding USA and China) Q3 Gross Revenue was down 83% on pcp, due to a decline in low margin bulk product sales. Branded international Gross Revenue was up 69% on pcp
- Australian retail high growth momentum continues: Q3 Gross Revenue up 21% on pcp, with Bubs Infant Formula scan sales growing at nearly 7x the market growth rate¹ over the period

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.



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United States (37% of Group Gross Revenue)

The United States is the second largest infant formula market globally, valued at US\$5.6 billion².

Bubs is on track to meet all regulatory milestones for permanent access to the U.S. market and is working closely with the FDA and other stakeholders to secure ongoing availability for Bubs in the U.S. market.

Bubs has commenced building brand awareness with American consumers and healthcare professionals and has opened an office in California to accelerate sales and marketing and streamline distribution.

Bubs ex-factory sales to retail stockists in the U.S. have been steadily building after the slowdown in Q2, as retailers sold through the initial 'Operation Fly Formula' pipe-fill. The sell down of the held inventory was slower than expected.

Q3 Gross Revenue of \$5.8m was up 116% on Q2. E-commerce sales through Bubs direct-to-consumer (DTC) channel are showing good promise as many American parents shop online and use home delivery for their infant food needs. Scan sales are also improving as the Bubs team continues to improve store level execution and on-shelf availability, despite a reduction in the overall number of stores ranging Bubs. Bubs share of the USA Goat IMF market remains at 93.8%³.

Australia (37% of Group Gross Revenue)

Q3 Gross Revenue was up 21% on pcp and Bubs continues to be the fastest growing infant formula manufacturer within the top six major manufacturers.⁴

At 27% growth in scan sales value, Bubs Infant Formula portfolio has grown at nearly seven times the market growth rate of 4 percent, delivering over 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 50% 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 33% growth in scan sales versus prior year¹.

As a result of the Bubs Supreme China sales being significantly lower than the FY2023 forecast sales, the Group is currently carrying a significantly higher inventory level of base formula powder than during the prior year. Strategies to reduce this inventory holding are being actively investigated.

China (20% of Group Gross Revenue)

Despite China's recent COVID policy change and border opening, and the prospect of students and tourists returning to Australia in large numbers, we are yet to see the expected uplift and growth rate in Bubs' sales to China.

China Q3 Gross Revenue was down 56% on pcp with significant amounts of finished goods inventory still held in trade, predominately Bubs Supreme. This is significantly impacting the replenishment volume and therefore new sales to China. The Bubs Supreme brand was initially custom made for principal corporate daigou partner, AZ Global.

Bubs Sales of IMF and Adult Nutrition in the CBEC and O2O channels have been and remain below expectations and Bubs is working to improve the distribution and sell through in China.

Mr Jackie Lin, a Chinese-Australian executive with C2 Capital has been seconded to Bubs to help the Board lead a strategic review of China operations with immediate effect.

² Euromonitor and Market Data

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

⁴ Total AU Grocery & Pharmacy Retail Scan \$'s to MAT w/e 09/04/23



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While the short-term outlook for sales to China in Q4 remains subdued, it is pleasing that the Chinese economy is now fully open for business again. The company will comment further on future prospects once its strategic review is complete.

Other International Exc. USA (6% of Group Gross Revenue)

Other international (Excluding USA) Q3 Gross Revenue was down 83% on pcp, due to the decline in low margin bulk ingredient sales.

Branded Gross Revenue is up 69% versus pcp with key markets of Japan, Vietnam, Korea, Malaysia, and Singapore delivering YTD growth of 110% to the end of Q3.

Vietnam is the second largest market for infant formula in South-East Asia, valued at US\$1.6bn annually⁵. In November 2022, Bubs entered into a partnership with Concung, Vietnam's leading Mother & Baby store chain with 750 outlets and 18.5% share of the total infant formula market. Sell through in Concung stores from December to March has been strong, achieving compound volume growth of 18% month on month. Store distribution points in Concung for Bubs range will increase in April from 350 stores to 400 stores, with further increases likely as Bubs continues to deliver and exceed Concung's performance hurdle rates.

CASH POSITION

Bubs held \$39.2 million in cash reserves as at 31 March 2023. The Group's total cash on hand and unused finance facilities available as at 31 March 2023 is sufficient to fund the business' operating activities for four quarters based on FY23 Q3 net cash used in operating activities.

GOVERNANCE AND LEADERSHIP

On 11 April 2023, the Company announced the following Board changes:

Ms. Katrina Rathie was appointed as Chair of the Board, replacing Mr. Dennis Lin.

Mr. Paul Jensen and Mr. Reg Weine have been appointed to the Bubs' Board as independent Non-Executive Directors. Mr. Jensen is the Chair of Bubs' Audit, Risk and Technology Committee. Mr. Weine has joined the Remuneration and Nominations and Audit, Risk, & Technology Committees. Mr. Steve Lin is a member of the Remuneration and Nominations Committee and the Audit, Risk, & Technology Committee.

As noted earlier, with immediate effect, Mr. Jackie Lin has been seconded from C2 Capital to assist the company manage its China business and support the Board review of its China market strategy. C2 was established in 2018 to provide growth capital and operational support for companies to scale in China. The firm's anchor investor is Alibaba Group. C2 Capital is Bubs largest shareholder and Bubs Non-Executive Director; Mr. Steve Lin is the Managing Partner of C2 Capital.

Ms. Kristy Carr remains on leave and the Board currently expects Ms. Carr to return in mid-May. Mr. Richard Paine (Chief Operating Officer) is the acting CEO while Ms. Carr is on leave. Mr. Paine has worked at Bubs for four years, has deep knowledge of the Deloraine operations, and is managing Bubs' FDA approval process. Mr. Paine has also been responsible for managing the Bubs distribution strategy in the U.S.

Immediately following the outlined governance changes, the Board commenced a strategic review of the business, with a particular focus on the USA, Australia, and China operations.

The Board notes the significant H1 investment in various growth initiatives including the expansion of the China strategy, the entry into the USA market, FDA approval, advertising and marketing, and overheads to support growth.

⁵ Euromonitor International from trade sources/national statistics Dairy Products and Alternatives



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The strategic review will include an analysis of all current and proposed expenditure across the business to ensure it is appropriately matched with budgeted revenue streams.

The board expects the strategic review of the global business to be concluded by 30 June 2023 and undertakes to provide shareholders with an update shortly thereafter.

ASX ADDITIONAL INFORMATION

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

\$0.3m on research and development; \$12.9m on product manufacturing and operating costs; \$6.2 m on advertising and marketing; \$2.7 m on staff costs; and \$3.2 m on administration and corporate costs YTD in the 2023 financial year.

Details of the business activities can be found within this report. Pursuant to ASX LR4.7C.3, the Company advises that payments of \$299,815 to related parties are to key management personnel.

The Bubs Australia Appendix 4C Quarterly Cashflow Statement for the period ended 31 March 2023 is attached. The Report was lodged with the ASX on 28 April 2023.

About Jackie Lin

Jackie has extensive experience in retail, international trade and cross-border e-commerce development. Prior to joining C2 Capital, he worked at Alibaba Group in the Tmall Global Business Unit. From 2016 to 2020, as Senior Operation and Business Development Manager, he helped establish key Alibaba Group import initiatives. He was the founding member of the first vertical import procurement business of Alibaba Group, Tmall Direct Import, a zero-to-billion-dollar sales retail project. He then relocated to Alibaba's Australia and New Zealand regional office as a member of the business development team to identify, onboard and support imported goods from Australia and New Zealand in key GMV categories, including food and infant formula, among others. Prior to Alibaba Group, he was actively involved in investment and export opportunities for Australian products, through his early career in Australian government and private sector experience in Australia. He has served as a board member of Australia China Business Council. Jackie has a Bachelor's degree in Media and Economics from the University of Adelaide.

This release is approved by the Board of Directors.

END

MEDIA & INVESTOR INQUIRIES

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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, and USA.

Consumer Website: [bubsaustralia.com](https://www.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")
31 March 2023

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	13,131	59,107
1.2 Payments for		
(a) research and development	(309)	(309)
(b) product manufacturing and operating costs	(12,921)	(58,277)
(c) advertising and marketing	(6,205)	(13,659)
(d) leased assets	(5)	(14)
(e) staff costs	(2,738)	(8,762)
(f) administration and corporate costs	(3,199)	(11,642)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	218	310
1.5 Interest and other costs of finance paid	(89)	(222)
1.6 Income taxes paid	-	(106)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(12,117)	(33,574)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	(4,000)
(c) property, plant and equipment	(138)	(401)
(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	(138)	(4,401)

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
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	-	60,825

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	51,416	16,311
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(12,117)	(33,574)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(138)	(4,401)

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)	-	60,825
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	39,161	39,161

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	37,913	50,168
5.2	Call deposits	1,248	1,248
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)	39,161	51,416

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
300
-

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 \$299,815.

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 9.47% 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)

(12,117)

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

39,161

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)

47,161

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.

Date 28 April 2023

Authorised by: The Board of Directors

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.