



Bubs Australia Limited  
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**TRANSFORMATIVE AGREEMENT TO ACQUIRE NULAC FOODS AND INTEREST IN DAIRY PROCESSING FACILITY, PLACEMENT AND SHARE PURCHASE PLAN TO BE UNDERTAKEN**

- **Bubs to become Australia's only vertically integrated producer of goat infant formula**
- **Ownership of market leader CapriLac (goat milk powder) and Coach House Dairy brands**
- **Exclusive goat milk supply from Australia's largest goat milking herd, which combined with their New Zealand farm, produces up to 6.2m litres of milk annually from 8,500 goats**
- **Earnings accretive on completion, expected end calendar 2017**
- **Oversubscribed Share Placement to raise A\$15.0m (before costs) at \$0.60 per share**
- **Intention to offer a Share Purchase Plan to eligible shareholders to raise A\$5.0m (before costs) at the same price as the Share Placement**

**Sydney, 3rd November 2017:** Bubs Australia Limited (ASX: BUB) today announces it has reached agreement to acquire 100% of NuLac Foods ("**NuLac**"), the owner of the CapriLac and Coach House Dairy brands and a 49.9% equity interest in the dairy facilities producing NuLac Foods products including Uphamgo Australia Pty Ltd (Uphamgo), a CNCA certified producer of adult goat milk powder and a range of related dairy foods. The acquisition consideration is A\$25 million cash with further payments up to A\$13.4 million over two years if certain performance targets are met and ordinary shares in Bubs equivalent to 19.99% Bubs' post-transaction issued capital. The NuLac acquisition is contingent on shareholder approval, which will be sought at Bubs' Annual General Meeting expected to be held on 14 December 2017. See Appendix 1 for details.

Also announced today is the successful completion of an institutional share placement, raising A\$15.0 (before costs) at A\$0.60 per share from professional and sophisticated investors in Australia and internationally (**Placement**) and the intention to offer the opportunity to each existing eligible shareholder of the Company to subscribe for up to a maximum of A\$15,000 of fully paid ordinary shares, subject to scale back, at an offer price of A\$0.60 per share, to raise up to A\$5.0 million under a Share Purchase Plan ("**SPP**"). Issue of the shares under the Placement and SPP is also conditional on shareholder approval. See Appendix 2 for details.

On completion, Bubs will acquire NuLac's sales and marketing functions, IP and brands, and will enter into a tolling agreement with the Milk Processing Joint Venture and agreements with the vendors for exclusive rights to 100% of their milk supply. Bubs will also have a call option to acquire the Australian farm operating company and associated goat farms from the Australian based vendors in certain circumstances. See Appendix 1 for further details.



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Chief Executive of Bubs Australia, Nicholas Simms said: "This transformative acquisition is underpinned by a compelling rationale that would see Bubs controlling its own destiny. This has been uppermost in our minds on our strategic journey and this transaction represents an important step in our efforts to expand our domestic and China business.

"The acquisition provides a pathway for Bubs to secure its source of goat's milk for our premium infant formula products as part of Australia's only vertically integrated goat milk nutritionals enterprise, with exclusive access to Australia's largest herd of milking goats, which combined with the New Zealand farm, are currently producing in excess of 6,000,000 litres of milk annually.

"The combined strength of the organisations will deliver a highly compelling proposition and accelerate our collective growth in our domestic markets, and in China and South East Asia. Importantly, the acquisition will have a significant positive impact on our business, and will be earnings accretive from the outset," Mr Simms said.

Dennis Lin, Chairman of Bubs Australia, said: "This is a truly defining moment in our journey to becoming a vertically integrated enterprise and a global leader in goat milk nutrition. It transforms our business and places Bubs in an unrivalled position to develop the market for infant and adult goat milk products here in Australia, and to leverage our nascent business in China.

"The successful private placement, also announced today, shows that institutional and professional investors share that vision and have given the company's strategy a massive vote of confidence. We are pleased to extend this offer to existing eligible shareholders.

"We are also delighted that John Gommans, CEO and Co-Founder of NuLac Foods, will join the Board of Bubs Australia. His unquestionable expertise across goat dairy farming management and operation, dairy foods production and familiarity with the Chinese regulatory landscape will be invaluable."

### **Compelling proposition for future growth**

"Acquiring NuLac's brand, sales and distribution channels together with access to manufacturing capabilities in Australia and New Zealand is a compelling proposition that will enable the combined entities to better capitalise on the growing demand for premium specialty dairy products, including infant formula, goat's milk powder, as well as fresh products including milk and yoghurts," said Mr Simms.

NuLac's *CapriLac* is a market-leading brand of goat dairy products, including a range of goat's milk yoghurts, milk and milk powder all made using milk from their farms in Gippsland, Victoria and Hamilton, New Zealand.



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The partnership guarantees sustainable supply of locally sourced quality fresh goat milk and base goat milk powder for Bubs and NuLac branded products. The transaction secures exclusive goat's milk supply from Australia's largest herd of 6,500 milking goats supplying over half of Australia's total goat milk, and an additional 2,000 milking goats in New Zealand, with a combined production capacity of up to 6.2 million litres per annum.

The planned integration would allow full transparency of ingredients back to farm gate and capacity to increase volume to meet future demand. The production facility is currently CNCA dairy certified to process dairy and milk powder products (excluding infant formula) for export to China. The plant (*Uphamgo*) has the capability to pasteurise milk, spray dry liquid milk into powder, and process yoghurt. This in itself will help mitigate risk of regulatory change.

The transaction would also bring sales and marketing communication synergies to reinforce the company's leadership position as Australia's goat's dairy specialist.

Mr. Simms said: "The CapriLac brand has high appeal with Chinese consumers and brings opportunities to leverage existing Bubs relationships and agreements with e-commerce trading platforms with whom Bubs already has agreements.

"Taken together, we will have the competency and resources to enhance our supply chain capacity combined with the flexibility to respond to changing circumstances. Clearly, securing access to such an important key ingredient will increase market confidence and mitigate regulatory risk," said Mr Simms.

John Gommans, CEO and Co-Founder of NuLac Foods said: "This an exciting opportunity for NuLac which, while growing strongly, will benefit from ownership by an ASX listed company with access to development funding sources not previously available to us."

Mr Simms added: "Bubs and NuLac share common values – wholesome healthy food; being thorough and uncompromising, sticking to our ethics no matter what; delivering 'clean food' from trusted brands; and striving for the best in customer service – which were all important motivating factors in assessing the opportunity presented by bringing the two companies together.

"We believe this to be a truly win-win all round - for Bubs and NuLac Foods' consumers - customers, suppliers and employees alike.

"In the meantime, we don't intend to change any material aspect of the NuLac Foods business and Bubs Australia will retain the products, brands and corporate identity in the markets it serves," Mr Simms said.

**Following release of this announcement, the Company has requested of the Australian Securities Exchange that trading of its shares be reinstated.**



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## Appendix 1: Terms of the Proposed Acquisition

Bubs has entered into a conditional sale and purchase agreement to acquire:

- 100% of the issued capital in NuLac Foods Pty Ltd (**NuLac**), which owns the NuLac, CapriLac, Coach House Dairy, No Udder and Alpine brands;
- 49.9% of the entities that own and operate a milk processing facility located in Keysborough, Victoria (**Milk Processing Joint Venture**); and
- 49.9% of New Zealand Nutritional Goat Company Limited,

(collectively, the **Proposed Acquisition**).

The consideration for the Proposed Acquisition comprises:

- A\$25 million cash payable to the vendors at completion of the Proposed Acquisition, subject to adjustments and movements in certain inventory levels as at completion and a deferred payment of up to A\$13.4 million payable over a two year period if certain performance targets are met (**Cash Payments**); and
- fully paid ordinary shares in the Company equal to 19.99% of the issued capital of the Company at completion of the Proposed Acquisition (**Consideration Shares**).

The vendors have agreed that the Consideration Shares will be held in voluntary escrow, with 50% of the Consideration Shares to be released 12 months after the date of completion of the Proposed Acquisition and the remaining 50% to be released 24 months after the date of completion. During this time, the former owners of NuLac will not dispose of any Consideration Shares the subject of the escrow except:

- in customary circumstances (including to accept an offer under a takeover bid);
- to transfer the Consideration Shares to a relative, provided the relative enters into an escrow arrangement on the same terms; or
- if Bubs fails to make a deferred payment required under the sale and purchase agreement.



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Payment of the A\$13.4 million deferred payment under the sale and purchase agreement is conditional on satisfaction of certain KPIs. A\$6.7 million will be payable to the vendors in respect of the first year following completion of the Proposed Acquisition if, in respect of that year:

- the capacity of the Australian milk processing facility is maintained such that it is capable of producing a minimum volume output of 5000kg of yoghurt per business Day each week;
- the capacity of their Australian milk processing facility is maintained at over 75% capacity such that it is capable of producing a minimum volume output of 400 tonnes of milk powder;
- Australian Quarantine and Inspection Service and Department of Agriculture and Water Resources export certifications for the Australian milk processing facility are maintained;
- John Gommans and Penny Gandar are continuously employed;
- a satisfactory food quality audit of the Australian milk processing facility by relevant government regulators is obtained;
- a range of dry and wet products are capable of being produced at the Australian milk processing facility that are available for sale;
- products produced by the Milk Processing Joint Venture meet agreed specifications in respect of at least 85% of agreed purchase orders; and
- 90% of the agreed purchase orders are satisfied.

A reduced payment of A\$6 million will be payable to the vendors if all of the above KPIs are satisfied in the first year following completion of the Proposed Acquisition, except that:

- agreed specifications are achieved in respect of at least 75% (but less than 85%) of purchase orders; and
- at least 85% (but less than 90%) of purchase orders are satisfied.

Equivalent payment obligations apply on the same terms in respect of the second year after completion of the Proposed Acquisition.

If Bubs does not make a deferred payment when due, it will be required to pay a higher amount of either A\$7.6 million or \$6.9 million (depending on the KPIs satisfied). This amount may, at the



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vendors' election but subject to any required shareholder approval or government agency approval, be satisfied through the issue of fully paid ordinary shares in Bubs (based on the volume weighted average price of the shares traded on the ASX in the five days immediately preceding the election).

The Proposed Acquisition is subject to a number of conditions, including:

- the Company's shareholders approving the Proposed Acquisition for the purposes of ASX Listing Rule 11.1.2 and approving the issue of the Consideration Shares and the issue of shares in connection with the proposed capital raising (referred to below) for the purposes of ASX Listing Rule 7.1;
- completion of a pre-sale restructure in relation to the entities that are the subject of the Proposed Acquisition; and
- certain regulatory approvals and authorisations being obtained in connection with the issue of the Consideration Shares and the capital raising.

The Company will seek the shareholders approvals referred to above at its annual general meeting is expected to be held on or around 14 December 2017. The notice of meeting is expected to be dispatched on or around 15 November.

Subject to the satisfaction of the conditions, completion of the Proposed Acquisition is expected to occur prior to 31 December 2017. On completion of the Proposed Acquisition, Bubs will enter into a security holders agreement with the vendors for the Milk Processing Joint Venture, milk supply agreements with companies controlled by vendors for the supply of milk to Bubs, and a tolling agreement with the Milk Processing Joint Venture for the processing of milk.

The call option over the Australian farm operating company and the associated goat farms can be exercised within 90 days of certain regulatory changes regarding ownership by brand owners of farm land or farming operations. Under that call option, Bubs will also have a first right of refusal over any sale of the company or farms. The term of the call option is for period ending 5 years after the date of completion or, if earlier, the date on which the milk supply agreement between Bubs and that farm operating company is terminated.



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## **Appendix 2: CAPITAL RAISING**

The Company is also pleased to announce a share placement to raise approximately A\$15.0 million (before costs) at \$0.60 per share (**Placement**), conditional on shareholder approval for the purposes of ASX Listing Rule 7.1. The Company has received commitments from qualified institutional and sophisticated investors in Australia and internationally.

The Company will also make an offer to all existing eligible Australian and New Zealand shareholders to participate in a Share Purchase Plan to raise up to an additional A\$5.0 million (before costs) at \$0.60 per share (**SPP**). The SPP is conditional on shareholder approval for the purposes of ASX Listing Rule 7.1.

The proceeds of the Placement and SPP will be used to fund the consideration for the Proposed Acquisition. In the event that the issue of the shares under the Placement or the SPP is not approved by the Company's shareholders, the Proposed Acquisition will not proceed and the capital raising will not occur.

### ***Placement***

The Placement will comprise an offer of approximately 25.0 million fully paid ordinary shares at an issue price of A\$0.60 per share. The issue price represents a discount of 21.0% to the 10-day VWAP of A\$0.76 prior to the trading halt on 1 November 2017. The offer will be made to institutional and professional investors in Australia and certain overseas jurisdictions.

The issue of the shares pursuant to the Placement is subject to shareholder approval at the AGM. The new shares issued under the Placement will rank equally with existing shares in the Company.

Details of the Placement are also set out in an Investor Presentation which the Company has lodged with the ASX today. The Investor Presentation contains important information in relation to the Placement including the expected sources and uses of funds, risk factors and certain foreign selling restrictions with respect to the Placement. PAC Partners and Bell Potter were JLMs to the Placement offer.



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## **SPP**

The Company intends to offer the opportunity to each existing eligible shareholder of the Company to subscribe for up to a maximum of A\$15,000 of fully paid ordinary shares, subject to scale back, at an offer price of A\$0.60 per share, to raise up to A\$5.0 million. The issue price represents a discount of 21.0% to the 10-day VWAP of A\$0.76 prior to the trading halt on 1 November 2017.

The SPP is proposed to open on 15 November 2017 and is scheduled to close at 5pm (Sydney time) on 8 December 2017. Participation in the SPP will be open to all eligible shareholders as at 5pm on 2 November 2017 (**Record Date**) with a registered address on the share register in Australia or New Zealand.

The Company reserves the right to accept oversubscriptions or reject and scale back applications under the SPP at its absolute discretion. New shares issued under the SPP will rank equally with the Company's existing ordinary shares on issue. No brokerage or commissions are payable in respect of subscribing for shares under the SPP.

Details of the SPP will also be set out in the SPP Offer Booklet, which will be dispatched to eligible shareholders on or around 15 November 2017.

In the event that the Proposed Acquisition is not approved under Listing Rule 11.1.2, or the issue of the shares to the owners of NuLac, institutional investors under the Placement or eligible Bubs shareholders under the SPP is not approved by the Company's shareholders, the issue of shares under the SPP will not proceed and the Company will refund all application monies to shareholders.

## **DISCLAIMER**

This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or in any other jurisdiction in which such an offer would be illegal. Any securities described in this announcement have not been, and will not be, registered under the U.S. Securities Act of 1933 (the **US Securities Act**), or the securities laws of any state or jurisdiction of the United States. Accordingly, the securities may not be offered or sold, directly or indirectly, in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any applicable US state securities laws.

Investors should make and rely upon their own enquiries before deciding to acquire or deal in the Company's securities.





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#### **About Bubs Australia Limited**

Bubs Australia is engaged in the business of inspiring new generations of happy, healthy bubs through its premium range of Australian made organic baby food and specialty infant milk formula products, providing quality infant nutrition for the first 1,000 days of life.

Founded in 2006 in Sydney Australia, Bubs Australia develops and markets innovative infant nutrition products that give parents and their bubs reason to 'smile from the inside™.'

#### **About NuLac Foods**

NuLac Foods is Australia's largest vertically integrated producer of goat milk products, producing a range of goat milk powder products, as well as fresh milk and yoghurts, under a suite of brands spearheaded by 'CapriLac,' the Australian market leader in goat milk powder, and 'Coach House Dairy,' fresh naturally flavoured milks.

CapriLac Goat Milk products are made with fresh goat milk straight from their farms in Gippsland Victoria and Hamilton New Zealand. With over 6500 milking goats, they supply more than half of Australia's total goat milk supply. Combined with their 2,000 milking goats in New Zealand, they produce up to 6.2 million litres of goat milk annually. NuLac's modern dairies are equipped to ensure their milk is always the best possible quality.

#### **About John Gommans, CEO and co-founder, NuLac Foods**

John comes from a dairy farming family. On graduating from Massey University in 1980, and having decided to be a farmer, his father bought a large under-developed farm which John and his partner Penny Gandar managed, eventually turning it into a highly productive and profitable property. John worked for four years in Northland Dairy Coop (NZ) in a senior role and was awarded a NZ Dairy Board scholarship to study Business Management at Monash University. In 2005, he acquired the Keysborough factory and farm in Trafalgar and airfreighted 500 milking goats from their New Zealand farm to stock the property. This was the genesis of NuLac Foods. John and Penny have been responsible for the management and direction of the company in Australia since.