Bubs Australia Limited (ASX: BUB)
ACN 060 094 742
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31 August 2018

2018 PRELIMINARY FINANCIAL RESULTS

- ***Gross sales triple to $18.4M***
- ***330% net revenue growth year on year***
- ***Continued investment in channel development and vertical integration of supply chain***
- ***Agreement with CNCA registered manufacturer a key stepping stone for expansion into China***

Bubs Australia (ASX: BUB), producer of Australian made goat milk infant formula, organic baby food, and dairy products, submits the following Appendix 4E Preliminary Report for Financial Year 2018.

Releasing the 2018 Financial Results, Bubs Australia Founder and Managing Director, Kristy Carr said: "We are very pleased with the continued strong momentum in quarter-on-quarter sales growth totaling $18.42 million for the full year, with a material uplift in sales visible across all core product offerings, both domestically and in China.

"We saw 117% year-on-year growth for Bubs® infant formula, and a 306% increase in total gross revenue when aggregated with the growth attributable to the NuLac Foods acquisition, including CapriLac® and Coach House Dairy® products.

"We continue to pursue a strategy of significant and essential investment in channel capacity, including several new key trading partnerships servicing offline and online platforms, which will rapidly advance our China expansion strategy. Having secured a brand nomination with a Chinese registered manufacturing facility, we are now well advanced in pursuing our application approval with the responsible regulatory agency. This foundation work is supported by the establishment of an office in Shanghai with a cross functional team operating under Charles Li, an infant nutrition industry expert with two decades of experience in management, sales, distribution, dairy supply chain and regulatory processes.

"While building scale, we continue to invest in securing our supply chain and vertically integrated production capabilities. Following the NuLac Foods acquisition, we now have exclusive access to 13 million litres of goat milk from our Australian and New Zealand farms, double that of just six months ago. This milk pool includes the largest milking goat herd in Australia, underpinning our true provenance positioning and traceability back to farm gate, which is very important for both Australian and Chinese consumers.

"With these domestic and cross-border eCommerce achievements established, we are now well placed to enter our next phase of product and market development, turning the focus to bringing the company into profitability," said Mrs. Carr.

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FINANCIAL OVERVIEW

Bubs Australia delivered consistently strong sales growth momentum throughout FY18, driven primarily by infant formula and milk powder, more than tripling total revenue on prior corresponding period (pcp):

- FY18 total gross sales of $18.42 million, +306% on pcp
- FY18 total net revenue of $16.97 million, +330% on pcp
- Domestic sales increased 325% on pcp, with 536% increase in Q4 on pcp
- China export sales increased 305% on pcp, with 644% increase in Q4 on pcp
- Normalised EBITDA loss of $6.45m
- Strong cash balance of $38.6 million at year end
- Non-cash write-down of $48.23 million goodwill in the Nulac Foods cash generating unit
- SAMR (formerly CFDA) infant formula application is well advanced with CNCA registered facility
- Bubs Organic® baby food launches in 'Mother and Baby' stores in China
- Opened office in Shanghai to support China expansion strategy in-market
- Listed in the ASX Top 500 All Ordinaries Index

EARNINGS OFFSET BY INVESTMENT INTO VERTICAL INTEGRATION CAPABILITY

The company has continued to make significant investment in building scale through channel development, securing key ingredient supply, and successfully executing the vertical integration of the NuLac Foods business, acquired in December 2017.

Although sales momentum continues strongly, these investment activities led to a normalised EBITDA ($6.45 million) operating loss, including the high costs associated with developing products suitable for direct importation into China, provisions to meet China's regulatory requirements, and establishing an office and cross functional team in Shanghai.

The overall statutory net loss of ($63.9 million), incorporates expenses incurred outside of the normal operations of the company, including a non-cash $48.23 million goodwill impairment on the acquisition of NuLac Foods, expenses of $1.06 million associated with the acquisition. These treatments are accounting in nature. The statutory result also reflects a $7.50m expense relating to the contingent consideration of $13.4m payable to the NuLac Foods Vendors for future satisfaction of certain performance targets, recorded in employee costs given one of the KPIs relates to continued employment of Nulac Foods Vendors. In addition, $2.54 million of share base payment expense relating to options granted to the CEO.

As at 31 December 2017, the Group recorded a goodwill amount of $72,212,166 relating to the acquisition of Nulac Foods Pty Ltd on the acquisition date of 20 December 2017. The significant goodwill balance arose due to 67.5% of the consideration paid being in the form of shares issued in Bubs Australia

Limited and the rapid growth in the share price leading up to acquisition date. At 30 June 2018, the Group has performed a calculation of the recoverable amount of the Nulac Foods Cash Generating Unit based on a value in use impairment model. The difference between the recoverable amount determined by the value in use and the carrying value of assets in the NuLac Foods cash generating unit has resulted in an impairment to goodwill of $48.23m. This impairment has no impact on the cash or operational aspects of the Group. In addition, the Group intends to further promote the underlying provenance of its product ranges with a view to realising strategic values of the Nulac acquisition.

MANUFACTURING CAPABILITY AND SUPPLY CHAIN SECURITY

In December 2017, Bubs Australia acquired 100% of NuLac Foods Pty Limited, transforming the Company into a clear leader in the Australian goat dairy landscape, now supplying over 60% of Australia's total goat milk production.

The acquisition guarantees Bubs Australia exclusive access to locally sourced quality fresh goat milk at a fixed price, to be utilised in Bubs® and CapriLac® products. Since acquisition, the milk pool from Australia and New Zealand has increased from 6.5 million litres to more than 13 million litres, equivalent to 1,500 tonnes of milk powder. Plans are underway to further grow Australia's largest milking goat herd, and supplementary farms in New Zealand, with the aim to increase the combined herd to 50,000 milking goats.

As part of the acquisition, Bubs Australia took a 49.9% ownership stake in Uphamgo Pty Limited, a CNCA certified dairy (excluding nutritionals) facility. The facility is capable of producing fresh and flavoured pasteurised milk and yoghurt, as well as spray drying liquid milk to powder, for use in Bubs®, CapriLac® and Coach House Dairy® products.

The company continues to explore opportunities to strengthen the supply chain and further enhance the vertical integration of business operations, specifically in relation to infant formula manufacturing and key dairy ingredients.

STRONG DOMESTIC PERFORMANCE

Bubs® was founded in Sydney in 2006 and upholds an established premium positioning in the domestic infant nutrition category with a loyal and growing consumer base. The Company maintains that a strong brand presence at home is paramount for consumer uptake in China.

Throughout the year, the Company focused on expanding key points of domestic distribution, including securing new ranging across its product portfolios in Woolworths, Costco, Aldi, Metcash, Chemist Warehouse and other leading pharmacy banners, as well as increasing store counts in longstanding retail partners Coles and Big W.

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Bubs® infant formula sales increased by 33% in Coles in FY18, making it the fastest growing brand in value over the last 26 weeks as at 30 June 2018 versus last year *(Source: Nielsen Scan Sales Data)*.

PROGRESS ON CHINA EXPANSION STRATEGY

CNCA licensed manufacturing agreement provides stepping stone to infant formula registration

In June 2018, Bubs Australia announced a binding long-term agreement with Australia Deloraine Dairy, one of the fifteen infant formula manufacturing facilities in Australia licensed to produce infant formula for export to China by the Certification and Accreditation Administration of the People's Republic of China (CNCA). Bubs® infant formula range has been nominated as one of their three brand slots providing a pathway towards achieving SAMR (formerly CFDA) registration, which is required for the Company to directly export Bubs® Chinese labeled infant formula products into physical retail stores in China. The Company is well advanced in this application process.

Note, recent developments in China's regulatory management has resulted in The State Administration for Market Regulation (SAMR), which monitors and enforces advertising regulations, being appointed to oversee the registration of infant formula. Moving forward, the manufacturing facility will be regulated by China Customs and SAMR.

eCommerce expansion and Alibaba flagship stores

Throughout the year, significant progress was made in the cross-border eCommerce channel via a strategic partnership with Times New Asia, securing a minimum sales volume commitment of $17 million in Y1, $24 million in Y2 and $37M in Y3 on major platforms, including JD.com, Kaola, VIP, RED, Suning, Jumei, Kidswant, Yuou and Baobaoshu. In addition, the Company recently launched two Tmall flagship stores on Alibaba for CapriLac® and Bubs® products.

Bubs Organic® Baby Food launches in 'Mother and Baby' stores

Following successful import registration, Bubs Organic® baby food products have launched into the first Mother and Baby stores in China via a new partnership with QianJiaWanPu, the largest distributor of infant formula in China covering a network of over 50,000 specialty retail stores.

Office opened in Shanghai led by Charles Li, China COO

In order to actively manage the expansion of Bubs® in-market, the Company has also opened a representative office in Shanghai with a cross functional team to support channel development, sales, brand marketing, customer service, and regulatory compliance. The team is led by Charles Li, Bubs Australia's Chief Operating Officer – China, an infant formula industry specialist and Founder of Brilite Nutritionals which has a distribution network of over 2,000 Mother and Baby stores.

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ANNUAL FINANCIAL REPORT

The Bubs Australia Appendix 4E Preliminary Final Report for the full year period ended 30 June 2018 is attached.

The audited Annual Financial Report outlining the Company's strategic progress and operational performance will be lodged with the ASX on or before 28 September.

All Company information and financial reports will be available on Bubs Australia Investor Resource Centre: www.investor.bubsaustralia.com

END

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About Bubs Australia Limited (ASX: BUB)

Founded in 2006 in Sydney, Bubs Australia is engaged in the business of inspiring new generations of happy, healthy families through its range of Australian made premium infant nutrition and dairy products.

Bubs® speciality infant formula and organic baby food caters for a child's first 1,000 days of life. Other dairy brands in the Company's portfolio include CapriLac® and Coach House Dairy®. Products are widely ranged throughout Australia in Coles, Woolworths, Aldi, Chemist Warehouse, Costco and Big W, as well as exported to China, South East Asia, and the Middle East.

Bubs Australia is the leading producer of goat dairy products in Australia with exclusive milk supply from the largest milking goat herd in the country, providing a 'pathway to provenance' to become Australia's only vertically integrated producer of goat milk infant formula.

Appendix 4E

Preliminary Final report

Name of Entity: Bubs Australia Limited

ACN: 060 094 742

1. **Reporting Period** (current period): 30 June 2018
   Previous corresponding period: 30 June 2017

2. **Results for announcement to market**

Revenue	Increase	330.1%	To	$16,967,666
(Loss) from ordinary activities after tax attributable to members	Increase	1176.9%	To	($64,599,487)
Net (loss) for the period attributable to members	Increase	1176.9%	To	($64,599,487)
Dividends	Amount per share cents	Franked amount per share cents		
Final	-	-		
Interim	-	-		

Record date for determining entitlements to dividends: N/A

Brief explanation of figures:

Revenue has grown strong quarter on quarter throughout the year. The integration with Nulac Foods Ltd has transformed the Group's business with a material uplift in sales visible across all core product offerings. The rate of growth is reflective of the increased domestic penetration of the Bubs and Caprilac product range and the new strategic partnership with China's cross border e-commerce channel.

The operating loss reflects the fact the business is still in the development phase including the high costs of new product development, expenses related to expanding the domestic and China sales channels and investing in systems and processes to integrate the Nulac Foods Ltd business.

The overall position includes expenses incurred outside of the normal operations of the company. These items are the corporate transaction expenses of $1.06m associated with the acquisition of Nulac Foods, $7.50m expense relating to the contingent consideration of $13.4m payable to the NuLac Foods Vendors for future satisfaction of certain performance targets, recorded in employee costs given one of the KPIs relates to continued employment of Nulac Foods Vendors, $48.23m goodwill impairment relating to Nulac Foods cash generating unit and $2.54m share base payment expense for options granted to the CEO recorded in employee costs. Excluding these items the normalised EBIT[1] is -$6.76m for FY18 which represents a 142% increase compared to the normalised EBIT[1] in FY2017.

As at 31 December 2017, the Group recorded a goodwill amount of $72.21m relating to the acquisition of Nulac Foods Pty Ltd on the acquisition date of 20 December 2017. The significant goodwill balance arose due to 67.5% of the consideration paid being in the form of shares issued in Bubs Australia Limited and the rapid growth in the share price leading up to acquisition date. At 30 June 2018, the Group has performed a calculation of the recoverable amount of the Nulac Foods Cash Generating Unit based on a value in use impairment model. The difference between the recoverable amount determined by the value in use and the carrying value of assets in the NuLac Foods cash generating unit has resulted in an impairment to goodwill of $48.23m. This impairment has no impact on the cash or operational aspects of the Group.

[1] EBIT and normalised results are a non-IFRS measure. Non-IFRS measures have not been subject to audit or review

3. **Consolidated statement of comprehensive income**

For the Year End 30 June 2018	**2018** **$**	**2017** **$**
Revenue	16,906,256	3,932,298
Cost of sales	(14,755,918)	(3,071,505)
Other Income	61,410	12,957
Share of net profits of joint ventures accounted for using the equity method	132,437	-
Distribution and selling costs	(859,955)	(272,106)
Employee costs	(12,534,438)	(1,815,935)
Marketing and promotion costs	(855,004)	(811,361)
Occupancy costs	(652,504)	(135,607)
Administrative and other costs	(3,940,548)	(1,077,544)
Depreciation and amortisation	(309,007)	(116,534)
Goodwill impairment	(48,231,930)	-
Other expenses	(1,061,847)	(1,722,893)
Interest income	59,955	12,957
Finance cost	(255,422)	(12,777)
Loss before tax	**(66,296,515)**	**(5,078,050)**
Income tax benefit	1,697,028	18,808
Loss for the year	**(64,599,487)**	**(5,059,242)**
Other comprehensive income	702,310	-
Total comprehensive loss for the year	**(63,897,177)**	**(5,059,242)**

Expenses

Employee costs		
Wages, salaries and bonuses*	2,487,375	1,254,166
Contingent consideration payable	7,502,367	-
Share based payments	2,544,696	561,769
Total	12,534,438	1,815,935

Other expenses		
Corporate transaction accounting expense	1,061,847	1,722,893
Total	**1,061,847**	**1,722,893**

*Wages, salaries and bonuses include superannuation and payroll tax

4. Consolidated balance sheet

For the Year End 30 June 2018	2018 $	2017 $
Assets		
Current Assets		
Cash and cash equivalents	38,642,902	5,306,746
Trade and other receivables	4,012,822	924,106
Other assets	4,887,537	444,517
Inventories	5,947,683	984,968
Total Current Assets	**53,490,944**	**7,660,337**
Non-Current Assets		
Plant and equipment	47,305	66,026
Intangible assets	32,994,476	1,275,447
Investment in joint venture	2,368,351	-
Total Non-Current Assets	**35,410,132**	**1,341,473**
Total Assets	**88,901,076**	**9,001,810**
Liabilities		
Current Liabilities		
Trade and other payables	5,304,475	1,100,168
Borrowings	2,000,000	**-**
Provisions	159,020	177,830
Contingent payable	3,350,000	-
Consideration payable	1,488,327	-
Total Current Liabilities	**12,301,822**	**1,277,998**
Non-Current Liabilities		
Provisions	5,654	-
Contingent consideration payable	4,152,367	-
Deferred tax liabilities	-	199,338
Total Non-Current Liabilities	**4,158,021**	**199,338**
Total Liabilities	**16,459,843**	**1,477,336**
Net Assets	**72,441,233**	**7,524,474**
Equity		
Issued capital	141,352,168	15,082,928
Options Reserve	3,106,465	561,769
Accumulated losses	(72,017,400)	(8,120,223)
Total Equity	**72,441,233**	**7,524,474**

5. Consolidated statement of cashflows

	Consolidated 2018 $	Consolidated 2017 $
Cash flows from operating activities		
Receipts from customers	17,507,314	3,914,253
Payments to suppliers and employees	(30,250,933)	(6,020,531)
Interest received	59,955	3,410
Interest paid	(90,906)	(3,230)
Net cash used in operating activities	(12,744,570)	(2,096,294)
Cash flows from investing activities		
Purchases of property, plant and equipment	(29,025)	(54,813)
Proceeds from disposal of property, plant and equipment	-	27,988
Purchase of intangible assets	-	(990)
Payments for subsidiaries net of cash required	(22,763,687)	-
Payments for interests in joint ventures	(2,235,914)	-
Cash acquired from acquisitions	-	5,510,699
Proceeds / (repayment) of borrowings	(600,000)	-
Net cash used in investing activities	(25,628,626)	5,482,884
Cash flows from financing activities		
Proceeds from share issue	74,784,437	28,000
Capital raising costs	(3,045,085)	(149,935)
Proceeds / (repayment) of borrowings	-	(39,515)
Net cash from financing activities	71,739,352	(161,450)
Net increase in cash and cash equivalents	33,336,156	3,225,140
Cash and cash equivalents at the beginning of the financial year	5,306,746	2,081,606
Cash and cash equivalents at the end of the financial year	38,642,902	5,306,746

6. Statement of changes in equity

2018	Issued Capital $	Option Reserve $	Retained Earnings $	Total equity $
Balance at 1 July 2017	15,082,928	561,769	(8,120,223)	7,524,474
Comprehensive income				
Loss for the year	-	-	(64,599,487)	(64,599,487)
Other comprehensive income	-	-	702,310	702,310
Total comprehensive income	-	-	(63,897,177)	(63,897,177)
Transactions with owners in their capacity as owners:				
Shares issued at acquisition	54,529,906	-	-	54,529,906
Issue of shares	74,784,419	-	-	74,784,419
Capital raising costs	(3,045,085)	-	-	(3,045,085)
Issue of options	-	2,544,696	-	2,544,696
Balance at 30 June 2018	141,352,168	3,106,465	(72,017,400)	72,441,233

2017	Issued Capital $	Option Reserve $	Retained Earnings $	Total equity $
Balance at 1 July 2016	8,400,000	-	(3,060,981)	5,339,019
Comprehensive income				
Loss for the year	-	-	(5,059,242)	(5,059,242)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(5,059,242)	(5,059,242)
Transactions with owners in their capacity as owners:				
Issue of shares	6,832,863	-	-	6,832,863
Capital raising costs	(149,935)	-	-	(149,935)
Issue of options		561,769		561,769

Balance at 30 June 2017	15,082,928	561,769	(8,120,223)	7,524,474

7. Share capital

	2018		2017	
	Shares	$	Shares	$
Movement in share capital				
Balance at beginning of the year	238,820,888	15,082,928	25,000	8,400,000
Deemed reverse acquisition on Bubs Australia Limited by IFHC	-	-	75,140,888	6,804,862
Issue of shares as part of acquisition / reverse acquisition	76,802,684	54,529,906	163,375,000	-
Exercise of options	5,000	-	-	-
Placement of shares	8,331,933	4,999,160	280,000	28,000
Share purchase plan	112,233,910	69,785,259	-	-
Share issue transactions costs	-	(3,045,085)	-	(149,934)
Balance at end of year	**436,194,415**	**141,352,168**	**238,820,888**	**15,082,928**

8. Dividends

Amount per security

		Amount per security	Franked amount per security at 30% tax cents	Amount per security of foreign source dividend cents
Final Dividend	-Current year	-	-	-
	-Previous year	-	-	-
Interim dividend	-Current year	-	-	-
	-Previous year	-	-	-

Total Dividends on all securities for the year

	Current period	Previous corresponding period
Ordinary securities	436,194,415	238,820,888

Preference securities	-	-
Other equity securities	-	-

9. Dividend re-investment plan

The dividend reinvestment plans shown below are in operation:

None

Last date for receipt of election notices for the dividend reinvestment plan: N/A

10. Net Tangible Assets

	Current period	Previous corresponding period
	Cents	Cents
Net tangible asset backing per ordinary share	0.090	0.026

11. Details of entities over which control has been gained or lost

On 20 December 2017, Bubs Australia Limited acquired 100% of the issued shares in Nulac Foods Pty Ltd. In the 31 December 2017 financial statement the acquisition accounting for NuLac Foods was provisional. The Group has finalised the accounting at 30 June 2018

Purchase Consideration

	$
Cash	25,000,000
Deferred consideration	1,323,880
Deferred cash adjustment	(92,499)
Ordinary shares issued	54,529,906
Total Purchase Consideration	**80,761,287**

Deferred consideration of up to $1,488,327 is payable in cash in the event that any of the 9,417,350 options outstanding as at 20 December 2017 are exercised, to adjust for the dilution of the consideration shares. Payments are due to be made within 30 days of the relevant option exercise date. The value of the deferred consideration of $1,323,880 was estimated by calculating the present value of future expected cash flows. As at the date of acquisition, it is not expected that the participants will execute within a period of 12 months. As at 30 June 2018, it has been determined that this amount is expected to be paid within 12 months and as such has been recorded as a current liability.

A reconciliation of the fair value measurement of the consideration liability is provided below:

As at 1 July 2017	-
Liability arising on acquisition	$1,323,880
Fair value movements recognised in profit or loss	$164,447
As at 30 June 2018	$1,488,327

In addition, a deferred cash adjustment is expected to be made in October 2018 relating to a working capital adjustment based on the values of certain accounts in the balance sheet of NuLac Foods Pty Ltd as at the acquisition date, including inventories, receivables and trade and other payables. The adjustment has been estimated as a cash payment to the Group of $92,499.

The fair value of the 76,802,684 shares issued as part of the consideration ($54,529,906) was based on the published share price on 20 December 2017 of $0.71 per share.

Analysis of cashflows on acquisition

	$
Cash consideration	25,000,000
Cash balances acquired	(399)
Net outflows of cash	**24,999,601**

A total amount of $1,061,857 transaction costs in relation to the acquisition are included in cash flows from operating activities.

Assets and Liabilities Acquired

The fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	$
Cash and cash equivalents	399
Trade receivables	1,065,737
Inventories	3,896,449
Other current assets	86,444
Intangible assets: brands and trademarks	4,500,000
Intangible assets: customer relationships	3,500,000
Investments in joint ventures	2,235,914
Trade and other payables	(2,535,822)
Trade refinance facility	(2,000,000)
Deferred tax liability	(2,200,000)

	$
Net Assets	**8,549,121**
Total Purchase Consideration	80,761,287
Goodwill	72,212,166

Transactions recognised separately from the acquisition

A total amount of up to $13.4 million is payable by The Group in relation to Uphamgo Australia Pty Ltd upon the future satisfaction of certain performance targets, including production, specification, quality assurance and continuous employment related targets. This amount includes up to $6.7 million payable following the achievement of the performance targets in the period ending 20 December 2018, and up to $6.7 million payable following the achievement of the performance targets in the period ending 20 December 2019. These payments are not contingent consideration as defined in the Australian Accounting Standards, and accounted for in accordance with *AASB119 – Employee Benefits*, as expenses relating to future activities including continuing services of employees of Uphamgo Australia Pty Ltd. $7,502,367 representing the expense from the day of the acquisition to 30 June 2018 has been recorded as Employee costs in the Consolidated Statement of Profit or Loss.

Revenue and profit contribution

The acquired business of NuLac Foods Pty Ltd contributed revenues of $10,065,968 and net loss of $49,651,697 (including goodwill impairment of $48,231,930) to the Group for the period from 20 December to 30 June 2018.

Calculation of pro-forma revenue and profit for the period ended 30 June 2018 as if the acquisition had occurred on 1 July 2017 is impracticable due to the significant estimates required for retrospective restatement following a significant restructure of the operations of NuLac Foods Pty Ltd undertaken prior to the date of acquisition.

12. Details of associates and joint ventures

On 20 December 2017, Bubs Australia Limited acquired:

- 49.9% of the issued shares in Uphamgo Australia Pty Ltd;
- 49.9% of the issued shares in New Zealand Nutritional Goat Company Limited;
- 49.9% of the issued shares in Cambria Management Company Pty Ltd; and
- 49.9% of the issued units in Cambria Unit Trust.

The Group's investments in Uphamgo Australia Pty Ltd, New Zealand Nutritional Goat Company Limited, Cambria Management Company Pty Ltd and Cambria Unit Trust are accounted for as joint ventures under AASB 128 Investments in Associates and Joint Ventures.

13. Any other significant information

Details of any other significant information needed by an investor to make an informed assessment of the entity's financial performance and position:

Intangible assets

	Goodwill	**Brand name**	**Recipes**	**Customer list**	**Patents, trademarks and software**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Cost						
As at 1 July 2016	1,478,251	591,634	47,740	265,731	51,198	2,434,554
Acquisition of a subsidiary					990	990
As at 30 June 2017	1,478,251	591,634	47,740	265,731	52,188	2,435,544
Acquisition of a subsidiary	72,212,166	4,500,000	-	3,500,000	-	80,212,166
As at 30 June 2018	73,690,417	5,091,634	47,740	3,765,731	52,188	82,647,710
Amortisation and impairment						
As at 1 July 2016	(904,180)	-	(27,102)	(150,847)	(3,358)	(1,085,487)
Amortisation		-	(9,547)	(53,201)	(11,862)	(74,610)
Impairment	-	-	-	-	-	-
As at 30 June 2017	(904,180)	-	(36,649)	(204,048)	(15,220)	(1,160,097)
Amortisation	-	-	(9,547)	(238,639)	(13,021)	(261,207)
Impairment	(48,231,930)	-	-	-	-	(48,231,930)
As at 30 June 2018	(49,136,110)	-	(46,196)	(442,687)	(28,241)	(49,653,234)
Net book value						
At 30 June 2017	574,071	591,634	11,091	61,683	36,968	1,275,447
At 30 June 2018	24,554,307	5,091,634	1,544	3,323,044	23,947	32,994,476

Brand name, customer list and goodwill are allocated to the following cash generating units (CGUs) for the purposes of impairment testing: Infant Food Co $1,174,297 (2017: $1,227,388); Nulac Foods $79,836,504 (2017: Nil)

As at 31 December 2017, the acquisition of the business had only recently been completed, it had been accounted for on a provisional basis using the acquisition method of accounting. Bubs has undertaken further assessment of the fair value of consideration and the net assets acquired. The movements in goodwill is presented below:

	Goodwill balance
As at 31 December 2017	71,951,583
Provisional adjustments	260,583
As at 30 June 2018	72,212,166

Recognition and measurement

The costs of intangible assets other than goodwill are capitalised where there is sufficient evidence to support the probability of the expenditure generating future economic benefits for the Group.

Goodwill

Goodwill is recognised on business acquisitions, representing the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the business recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the date of acquisition, allocated to the Group's cash-generating units that are expected to benefit from the synergies of the combination.

Brand names

Brand names are considered to have an indefinite life and are not amortised. As at 30 June 2018, these assets were tested for impairment.

Customer list

Customer lists acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Impairment testing for cash-generating units (CGUs) including goodwill

Goodwill allocation
For the purposes of impairment testing, goodwill is allocated to the Group's CGUs which represent the lowest level within the Group at which goodwill is monitored by internal management as follows:

	2018	2017
Infant Food Co	574,071	574,071
Nulac Foods	72,212,166	-
	72,786,237	574,071

Recognition and measurement

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in consolidated income statement in the expense categories consistent with the function of the impaired asset.

Key estimates and judgements

Goodwill and intangibles

Judgements are made with respect to identifying and valuing intangible assets on acquisitions of new businesses. The Group assesses whether goodwill and intangibles with indefinite useful lives are impaired at least annually or more if impairment indicators are present. These calculations involve judgements to estimate the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated.

Annual impairment testing at 30 June 2018

The recoverable amount of the CGUs to which goodwill and brand names were allocated has been determined on a value in use basis using a discounted cash flow approach, and projections based on financial budgets and five-year forward plans approved by the Board.

Key assumptions

	2018		2017	
	Infant Food Co	Nulac Foods	Infant Food Co	Nulac Foods
Discount rate (post tax)	12.9%	11.9%	12.1%	-
Discount rate (pre tax)	18.5%	16.4%	17.3%	-
Terminal growth	2.5%	2.5%	2.1%	-

Sensitivity to change in assumptions

The calculation of value-in-use for the above CGUs is most sensitive to the following assumptions:

- Gross margins
- Discount rates
- Revenue growth during the forecast period
- Growth rates used to extrapolate cash flows beyond the forecast period (terminal growth rate)

Gross margins – Gross margins are based on budgeted margins for FY2019, and conservative estimates for future years, which have been adjusted where appropriate to account for expected future trading conditions. Consideration has been given to the growth profile of each CGU when forecasting future margin returns.

Discount rates – Discount rates represent the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying cash flows expected from the CGU being assessed. CGU specific risk is incorporated by applying individual beta factors. The discount rate calculation is based on the specific circumstances of each CGU and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the CGU's investors. The cost of debt is derived from the interest rate of the CGU's working capital facility.

Revenue growth – Revenue projections have been constructed with reference to the FY2018 results and five-year forward-looking plans with the earlier years being estimated through specific volume assumptions based on known opportunities, while years thereafter are adjusted for performance trends across the particular regions. A conservative approach has been adopted by the Group to reduce the risk of inflating estimated recoverable values. Management assesses the reasonableness of the growth assumptions by reviewing the achieved growth of comparable entities in the same, or related, industry segments.

Terminal growth rate – A terminal growth rate of 2.5% has been used for future cash flow growth beyond the five-year forecast period for both CGUs. This is a conservative rate when compared to annual growth rates during the forecast period.

The terminal value (being the total value of expected cash flows beyond the forecast period) is discounted to present values using the discount rate specific to each CGU.

As a result of this testing, the following assets of the Nulac Foods CGU were written off: goodwill on acquisition of Nulac Foods. Other CGU assets, including working capital were assessed as being fully recoverable, with no impairment booked on these items. The total impairment charge included in other expenses relating to goodwill in Nulac Foods segment was $48,231,930.

The recoverable amount of the Infant Food Co's CGU exceeds its carrying amount. As a result, no impairment loss has been recognised on either goodwill or the brand name.

Management has identified that a reasonably possible change in three key assumptions could have an impact on the recoverable amount of each CGU. The following table shows the impact on the recoverable amount:

		Impact on recoverable amount	
	% change	Infant Food Co	Nulac Foods
Discount rate	0.5%	(1,657,138)	(1,490,696)
Budgeted gross revenue growth	-5%	(7,023,165)	(1,533,681)
Budgeted gross margin	-1%	(2,574,546)	(2,981,022)

14. Accounting standards

The financial results have been prepared in accordance with Australian Accounting Standards.

15. Results for the period

15.1 Earnings per share

	Current period	Previous corresponding period
	Cents	Cents
Basic Earnings per Share	(19.82)	(2)
Diluted earnings per share	(20.33)	(2)
	Number	Number
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic EPS	325,909,435	203,025,125

15.2 Return to shareholders

N/A

15.3 Significant features of operating performance

Gross margin has been adversely affected in FY18 compared to FY17 due to the change in product mix with the acquisition of Nulac Foods. However, the positive blended margin combined with the strong linear growth in sales is beginning to erode the high operating and administrative costs indicative of a business in the growth phase. As sales continue to grow with strong GM and the number of one-off costs (capital raising costs, acquisition and integration of systems and processes) decrease, Bubs forecasts a significant improved EBIT position in FY19.

At an operating level, domestic sales increased 325% compared to FY17 with 491% increase during the third and fourth quarters compared to the same periods in the previous year.

Domestic sales account for 83.9% of gross revenue, with 14.6% of revenue generated from China cross border e-commerce sales, and the remaining 1.5% from other emerging international markets.

China sales increased 305% on FY17 with a 644% increase during the fourth quarters compared to the same period in the previous year. This represents the strong traction the Bubs product range is now gaining in the Chinese market following the deployment of marketing resources and sales channel contract wins with New Times Asia.

15.4 Segment Results

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the Board) in order to allocate resources to the segment and assess its performance.

For management purposes, the Group is organised into business units based on products along with a corporate function, and has two reportable operating segments as follows:

- Infant Food Co – revenues derived from sales of baby infant formula, wet pouches, baby cereals and snacks and rusks.
- Nulac Foods – revenue derived from sales of Caprilac products and fresh dairy products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is assessed on segment revenue and is measured consistently with operating profit or loss in the consolidated financial statements.

	Infant Food Co	Nulac Foods	Total segment	Eliminations	Total
	$	$	$	$	$
Segment revenue from external customers	6,901,698	10,065,968	16,967,666	-	16,967,666
Intersegment		99,008	99,008	(99,008)	-

Reportable segment EBITDA	(4,266,470)	(49,651,697)			(53,918,167)
Reconciliation of the underlying segment EBITDA and corporate costs, to Loss before tax					
Corporate costs					(1,061,847)
Depreciation and amortisation					(309,007)
Net interest expense					(31,020)
Share based payment					(2,544,696)
Corporate transaction					(1,061,847)
Contingent consideration					(7,502,367)
Share of net profits of joint ventures accounted for using the equity method					132,437
Loss before tax					(66,296,515)

Reconciliation of segment assets and liabilities

	Infant Food Co $	Nulac Foods $	Total segment $	Eliminations $	Total $
Segment assets	10,714,056	37,852,086	48,566,142	-	48,566,142
Cash and cash equivalent					37,073,525
Corporate assets					200,558
Working capital loan to UphamGo Pty Ltd					600,000
Investment in joint venture					2,368,351
Working capital adjustments					92,499
Total assets					88,901,076
Segment liabilities	11,908,052	7,146,292	19,054,344	(11,734,962)	7,319,382
Corporate liabilities					149,767
Contingent consideration payable					7,502,367

Consideration payable	1,488,327
Total liabilities	16,459,843

In FY17, management has identified a single operating segment being the manufacture and sale of infant food. Accordingly, the financial information presented in the consolidated statement of comprehensive income and consolidated balance sheet is the same as that presented to the Chief Operating Decision Maker.

15.5 Trends in performance

The Group expects to experience continued strong growth in the key domestic retail space and China e-commerce platforms. The gross revenue is expected to increase at least 100% due to the $17m sales commitment for FY19 with New Times Asia. The strong sales will be driven by strategic investment in marketing activities to establish brand awareness and continue the expansion of our distribution channels.

Operationally, our partnership with Deloraine Dairy enables us to have the capacity to support the strong domestic and China demand of baby infant formula. With investments in whey capture and processing this will further enhance the vertical integration and security of our supply chain.

15.6 Any other factors which have affected the results in the period which are likely to affect the result in the future including those where the effect could not be quantified:

In FY2017, Nicholas Simms was granted a total of 3,578,108 options (granted on 20 December 2016). These options were granted prior to Nicholas Simms being appointed as CEO, as part of his compensation as a commercial director of the company. These options were issued as an incentive for Nicholas Simms to join the Company and accordingly are not linked to any performance-based milestones. There are no performance or service conditions required to exercise the options, and the options are not dependent on the ongoing employment of Nicholas Simms by the Company. The 3,578,108 options vested in FY2017 and were exercised post 30 June 2018.

16. This report is based on accounts to which one of the following applies:

The accounts have been audited
√ The accounts are in the process of being audited
The accounts have been subject to a review
The accounts have not yet been audited or reviewed

17. Description of any likely audit dispute or qualification

N/A

Sign here:

Company Director

Date: 31 August 2018

Kristy Carr