



Bubs Australia Limited (ASX: BUB)
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2018 ANNUAL GENERAL MEETING – CHAIR AND CEO ADDRESSES Sydney, 28 November 2018

Chair's address delivered by Dennis Lin

Good morning. I am Dennis Lin, Chairman of Bubs Australia Limited and I will be chairing the Meeting today.

Almost two years on from our listing on the ASX, I can say that our intermediate goals have been realised with many key milestones having been met. We have a very strong domestic business, with representation in all major retailers and positive sales growth across all key segments of our portfolio.

We have established your company as the only vertically integrated goat milk infant formula business in Australia with the acquisition of NuLac Foods earlier this year, constructing a unique provenance story back to farm-gate.

Our revenue increased commensurately on the acquisition, transforming the company from being a brand-led business, to a fully functioning product origination, manufacturing and marketing enterprise, with full control over one of our most valuable assets and key ingredient; our milk pool.

Due to its unique digestive benefits, goat milk formula continues to be a key differentiator for Bubs® and provides a unique value driver in a growing super-premium segment of the category. In particular, we are making significant inroads into a key market segment that continues to grow exponentially in China – both in infant nutritionals and adult milk powder.

Whilst sales and distribution are expanding rapidly, we are still investing in building scale and capacity, and our resources are being applied to establishing a sustainable platform for the future, including growing our milk pool – already the largest in Australia, and building inventory to serve our key partnerships in China.

Excluding these non-recurring costs, the company showed a normalised EBITDA loss of \$(6.37) million and a Statutory loss of \$(64.66) million in FY18. This included a \$(48.23) million non-cash write-down in the goodwill attaching to the NuLac Foods transaction resulting primarily from the increase in Bubs Australia share price between the making of the agreement satisfied with Bubs Australia scrip and completing the transaction.

This doesn't detract from the strategic value of the NuLac Foods transaction and the company intends to further promote the underlying provenance of its product ranges with a view to realising strategic value of the acquisition.

Following the transaction, NuLac Foods CEO and co-founder John Gommans joined our Board as a Non-Executive Director, adding to our bench strength in the areas of dairy supply chain and manufacturing.



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Meanwhile, we continue to be extremely well placed to develop the market for both Bubs[®] goat milk infant formula and market leading CapriLac[®] adult goat milk powder here in Australia and leverage our foothold in China.

The company undertook a very successful \$40 million placement at the end of the financial year to enhance the company's financial flexibility and provide working capital to support new strategic opportunities and growth momentum, particularly in relation to further enhancement of our integrated operational capabilities, new product and market development, as well as securing new supply agreements for key ingredients.

The material over-subscription was a powerful affirmation from professional and sophisticated investors of their support for the Bubs vision and market potential.

That being said, we are still in the relatively early stages of our strategic journey to becoming a leading brand in the specialty infant milk formula and premium organic infant food segments, both here and in Asia.

Looking ahead to 2019, we shall be working to enhance our vertical integration and continue to grow our milk pool. We will continue to advance our channel development for China and to enter emerging South-East Asian markets, and extend our Nutritionals product portfolio and organic food offering. All of these building blocks allow us to scale the business upon the deep foundations already established.

On behalf of the Board, I would like to thank you for your ongoing support.

CEO's address delivered by Kristy Carr

Good morning and welcome to the Bubs Australia Annual General Meeting. 2018 has been a transformative year for Bubs and for me personally as I've had the pleasure to lead a passionate and talented growing team, as we work diligently to deliver on our rapid expansion plans and create a people centered, agile culture with shared purpose to become a category leader in infant nutrition and expand to new international markets.

Our vision to inspire new generations of happy, healthy bubs and our core values reflecting quality, integrity, and mum-to-mum connection, underpin everything we do, and remain unchanged since the company was founded at my kitchen bench in 2006.

Nourishing our most vulnerable and precious sector of the community is a privilege. Being able to take the best Australia has to offer in infant nutrition and share it with the world is an opportunity few companies can only aspire to.

Bubs is still a business in development, investing and building momentum for long-term sustainable growth. Our foundation building blocks and appointed partners are now in place, and the focus for 2019 is to drive rapid growth momentum.



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Strong Domestic Performance

We have built a strong domestic footprint with portfolio distribution and positive share growth in all leading grocery retailers, including; Coles, Woolworths, Aldi, IGA and Costco, as well as Big W, independent health food chains, and the pharmacy channel via direct distribution with the market leader Chemist Warehouse and all major pharmacy wholesalers.

This strong penetration locally, combined with our premium provenance story back to the farm and over a decade of brand heritage, provide the foundation of our credibility in the burgeoning Chinese market.

Underpinning our domestic share growth is our digitally-led content marketing campaign, which centres around our influencers and social community, now in excess of 120,000 engaged followers, making us the brand leader on Instagram and the second largest fan base on Facebook within the infant nutrition category.

China Cross-border eCommerce (CBEC)

Since listing we have entered a number of critical distribution agreements with Business-to-Consumer (B2C) eCommerce and Online-to-Offline (O2O) platforms serving China's cross-border market. Bubs® and CapriLac® products are now readily available on China's four major platforms, including JD.com, Tmall, Kaola, and VIP, as well as many vertical platforms targeting the mother and baby category. In addition to our direct supply agreements, we have launched our own flagship stores on Alibaba's Tmall, RED and JD.com for cross-border and general trade during the year.

We have partnered with New Times Asia, a specialist eCommerce services provider to manage the operations, supply of inventory and trade activities with these eCommerce platforms to drive volume and maximise return on investment.

To service our growing China business in-market, we have established a representative business office and team in Shanghai under the leadership of Charles Li, a veteran in the industry and our appointed Chief Operating Officer for China.

Vertical Integration

At our last AGM, we stood before you to resolve the acquisition of the NuLac Foods business; a transaction that received overwhelming support from both institutional investors and shareholders. This was a pivotal point for the company that redefined our business model, supply chain security and scalability.

During the year, we have successfully integrated the NuLac Foods business, including milk supply, spray drying production capability and brand ownership.



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Bubs® infant formula will become the world's first and only infant formula based on Australian sourced goat milk; a unique and compelling provenance proposition for both Australian and Chinese parents.

Australia's Largest Producer of Goat Dairy Products

Bubs Australia is now the largest producer of goat dairy products in the country. Throughout the year, we have actively grown our herd size in Australia and New Zealand, and now have exclusive access to the milk from 24,000 goats, capable of producing 13 million litres of milk annually.

We are committed to supporting and growing the goat dairy industry in our region, with plans to expand our existing herds, as well as establishing new partnerships with farmers, targeting milk supply ownership from 50,000 milking goats by 2020.

We are now exploring strategic opportunities to further enhance our vertically integrated operations in the areas of infant formula manufacturing and supply of key dairy ingredients.

Chinese Demand for Goat Milk Formula

There continues to be a huge and growing market in China for goat milk based formula, with 40-45% growth year-on-year; the market is now worth 11.6Bn RMB (~AUD2.3Bn). Goat milk formula continues to attract a premium above the category as Chinese consumers trade up driving positive value growth.

Organic Baby Food Distribution in China

Bubs Organic® registered baby food products are being distributed into physical Mother and Baby stores throughout China, including major Key Accounts in top tier cities. We have appointed sub-distribution partners in most provinces and have a targeted sales strategy to deliver coverage of 5,000 stores in FY19.

Chinese Celebrity Endorsement

We have recently engaged celebrity endorsement with high profile Chinese brand ambassadors, including Jiani Zhang, new mum and star of the 2018 hit TV drama 'Story of Yanxi Palace' who has >5.7 million Weibo fans, and Dr. Cui Yutao, the most influential Pediatrician in China with >7 million followers on Weibo.

Outbound Daigou Engagement

A key strategic thrust has been made to stimulate outbound demand through Consumer-to-Consumer (C2C) eCommerce and active engagement with Australian based 'daigou' resellers in



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conjunction with our appointed corporate daigou distribution partner, whilst simultaneously driving demand from China through our in-market digital marketing strategy.

China Regulatory Changes

Bubs Australia welcomes the Chinese Government's recent announcement made on 21st November, declaring the current cross border eCommerce (CBEC) policy is to be continued, and no licencing, registration, or change to labelling or formulation will be required for retail imports through the cross-border channel. In fact, the government has advised that retail goods, including infant formula and milk powder, will receive more relaxed regulation as imports for personal use. In addition, the cross-border eCommerce zones will be extended from 15 to 22 cities.

Bubs[®] and CapriLac[®] products are classified under this CBEC retail imports list (commonly known as the 'positive list') and will therefore benefit from the higher transaction threshold, which was raised from RMB20,000 to RMB50,000 for preferential tax rates under these enhancements to the CBEC policy.

SAMR Registration

During the year, we entered a long-term Agreement with Australia Deloraine Dairy, under which Bubs has been nominated as one of their three designated brands for which the certified facility can put forward for registration to enable Bubs[®] infant formula range to be imported and distributed to physical off-line stores in China.

Australia Deloraine Dairy has submitted the completed dossier application with China's State Administration for Market Regulation (SAMR), which has taken over the regulatory role previously performed by CFDA. We will update the market when there is further progress on the application approval process.

During this period, we are actively working on establishing a sales plan and appointing provincial distribution partners to service Mother and Baby stores, particularly in lower tier cities, in preparation for registration being granted.

Trading Update and Outlook

We continue to make good progress on our strategic journey, with strong positive momentum in top-line sales growth.

FY18 gross sales tripled to \$18.4m with 330% year-on-year net revenue growth. Infant Formula and Milk Powder accounted for 66% of total revenue, followed by Fresh Dairy and Baby Food.

This momentum has continued into the first quarter of 2019 with material uplift in Infant Formula and overall sales to China, delivering our highest quarterly revenues on record.



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The Q1 FY19 sales performance reflects both an 82% year-on-year increase in Bubs® infant formula. Sales of CapriLac® equated to 55% of group quarterly revenue.

We expect to exceed our 2018 full-year revenue performance by the time we close off 2019 half-year, with strong growth momentum continuing into the second half.

Our focus is now on improving cost of goods, particularly in our nutritional and powder lines, and optimising the channel and product mix to improve margins and drive profitability. We believe significant improvements can be made here in the next 12 months.

We maintain a strong working capital position with \$31.7 million in cash reserves as at 30 September 2018.

The significant upfront production cashflow investment is required to meet the increased sales demand previously announced to the market. The divergence of debt collection and payment to suppliers is likely to remain whilst the business continues to grow at its current rate for next 12 months.

We are implementing a number of key operational initiatives to optimise our cashflow position by maintaining opex spending, improving the inventory cycle to meet sales demand, and minimising inventory write-offs.

Going forward we continue to focus on the key strategic pillars underpinning our business, namely; increased domestic penetration, leveraging brand awareness, product innovation, and fulfilling our long-term goals to be a major participant in China and emerging markets in South-East Asia.

Strategic Priorities and Growth Plans

We expect a growing proportion of our growth will come from China direct sales and partnerships to service each of the online and offline multi-channel routes to market, in particular via our corporate daigou distribution network. Management are therefore applying a strong focus on channel management, inventory flow and margin protection.

Our product innovation strategy centres around nutritionals, the most profitable sector of the business, and we look forward to updating the market on our upcoming product developments and launch plans in the coming months.

I have no doubt we are building a robust platform for the long-term. Given the company is still in transition, investing heavily in driving brand awareness, supply chain scalability and yield management, pursuing the development of new products and securing the applicable Chinese registrations, as well as leveraging the integration of NuLac Foods business, any attempt to provide a long-term financial forecast could be misleading.

On behalf of the leadership team, I would like to thank-you for your ongoing support and look forward to updating you on our strategic progress throughout the year.



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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 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.