



Bubs Australia Limited  
ACN 060 094 742  
2-4/6 Tilley Lane, Frenchs Forest  
NSW 2086 Australia

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

30 April 2019

## QUARTERLY ACTIVITIES REPORT AND APPENDIX 4C CASHFLOW STATEMENT

### ***Continued strong sales momentum provides foundation for Deloraine acquisition and new strategic alliances with Beingmate, C2 Capital Partners and Chemist Warehouse***

Bubs Australia (ASX: BUB), producer of premium infant nutrition products and Australia's largest producer of goat dairy products, including Bubs® goat milk infant formula, submits the following Activities Report and Appendix 4C Cash Flow Statement for the third quarter period ended 31 March 2019 (Q3). Note that this is the first quarterly report in which the year-on-year quarterly comparison incorporating NuLac Foods post acquisition can be given.

#### **FINANCIAL HIGHLIGHTS**

Strong revenue growth driven by infant formula sales to China and domestic Daigou Channel:

- Q3 gross revenue \$11.83M, up 103% prior comparable period (pcp).
- March FY19 gross revenue \$6.91M - the highest of any month on record for the Company.
- Year-to-date gross revenue \$32.87M.
- Bubs® goat milk infant formula gross sales up 302% pcp, representing 41% of Q3 revenue.
- Bubs Organic® baby food gross sales up 22% pcp, representing 6% of Q3 revenue.
- CapriLac® goat milk powder gross sales up 119% pcp, representing 40% of Q3 revenue.
- Domestic sales up 71% pcp, representing 79% of Q3 revenue.
- China sales up 884% pcp, representing 20% of Q3 revenue.
- Emerging export markets up 26% pcp, representing 1% of Q3 revenue.

#### **STRATEGIC DEVELOPMENTS**

Numerous important strategic developments and partnerships were established during Q3 and post balance date in April, to strengthen supply chain, expand channel capacity, increase profitability and complete foundation strategy:

- Cornerstone investment by C2 Capital Partners with \$31.44M raised capital.
- 100% acquisition of Australia Deloraine Dairy, a CNCA licenced infant formula manufacturing facility in Melbourne, including ownership of three brand slots with SAMR technical applications in process.
- Strategic equity-linked alliance with Chemist Warehouse, including national ranging of 28 products in-store and online.
- Joint Venture MoU with Beingmate for marketing and sales distribution of the Bubs® portfolio and regulatory support in China (scheduled to be executed on 6 May 2019).
- Long-term partnership with Tatura (Bega) to produce goat infant formula directly from Bubs' fresh Australian milk in a one-step process.



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- New production method allied sale of interest in Uphamgo manufacturing Joint Venture.
- Launch of Bubs Organic® toddler snacks with national ranging in Coles, extending infant lifespan reach beyond first 1,000 days and tapping into lucrative growth category.
- Sale of non-core Coach House Dairy® assets acquired as part of Nulac Foods acquisition in 2017 to sharpen business focus and reduce low margin impact on group performance.

Overviewing the Quarterly Activities Report, Bubs Australia Founder and CEO, Mrs. Kristy Carr said: "Continued third quarter sales momentum provided the foundation in the fourth quarter for C2 Capital Partners to become a cornerstone investor in Bubs; the acquisition of China-approved canning facility, Australia Deloraine Dairy; and the equity-linked alliance with Chemist Warehouse.

"During the quarter, we launched an innovative organic toddler snack range; reshaped our production capability with the strategic partnership with Tatura (Bega) for one-step production of goat milk infant formula; and the announcement of a proposed Joint Venture with Beingmate in China to market and distribute Bubs® entire product portfolio.

"Taken together, these developments have rounded out our foundation strategy, namely to build a vertically integrated business with key domestic and China channel partnerships in place. With our new strategic alliances to such renowned partners, Bubs is now in a very unique position and well placed to rapidly advance our business and operational performance," Mrs. Carr said.

Commenting on the **financial highlights**, Mrs. Carr said: "Business momentum has remained strong and our overall strategic direction has delivered excellent volume growth in Bubs premium infant nutrition segments, with 302% increase in infant formula sales year-on-year. Our March sales were the highest on record contributing to a strong third quarter, notwithstanding the seasonal variations in the China facing parts of our business due to festivals and holidays falling early in the quarter.

"As previously reported, domestic sales make up the bulk of our revenues and the increased in-store visibility, along with the marketing initiatives we have undertaken, have driven 71 percent increase in sales year-on-year. This strong uptake is a critical part of our appeal to overseas markets. Recent strategic developments will further amplify domestic channel growth through the pharmacy channel.

"Cross-border eCommerce has continued to grow with our overall direct sales to China increasing 884% year-on-year, demonstrating our route-to-market strategy is being well executed. As well, activation of the Corporate Daigou outbound distribution and engagement with the Australian Chinese community via events, influencers and social media, has contributed to our rapid growth," Mrs. Carr said.

Commenting on the key **strategic developments**, Mrs. Carr said: "The long-term supply partnership with **Tatura Milk Industries**, part of Bega, enables us to wet blend our fresh Australian goat milk with nutritional ingredients and spray dry in a single step, without intermediate spray dry to whole



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milk powder, thereby simplifying the production chain, shortening our cash cycle and ultimately margin expansion.

"Moving production to Tatura rendered the Uphamgo manufacturing Joint Venture non-core to our business. Our interest in Uphamgo was sold back to the NuLac Foods vendors and realised a profit. We have retained priority access to processing to manage seasonal variations in milk flow and as standby in the case of business interruption.

"In addition, post balance date we sold off the brand assets and expect to realise a profit on the Coach House Dairy flavoured cow milk business acquired in 2017 as part of the NuLac Foods acquisition, as it was non-core to our focus on infant nutritionals and goat dairy, further sharpening our focus on the most profitable sectors of our business.

"Importantly, we continue to be the only vertically integrated producer of goat milk infant formula in Australia, exclusively using Australian sourced milk with full traceability from the farm gate to the point of sale. Our total goat milk capacity now stands at some 20 million litres annually and able to support our anticipated growth trajectory.

"From a business generation perspective, in March Bubs entered a Memorandum of Understanding to form a Joint Venture with Shenzhen Stock Exchange listed **Beingmate Baby & Child Food Co., Ltd** for marketing and distribution of the full portfolio of Bubs infant formula and organic baby food products in China.

"Beingmate is one of the largest Chinese owned enterprises in the infant nutrition industry with 17 sub-brands of infant formula already SAMR registered and sold in 30,000 Mother and Baby stores throughout China. Under the proposed Joint Venture, Beingmate will sell Bubs products throughout their eCommerce and retail distribution network, as well as manage regulatory and importation logistics. We expect to formalise the Joint Venture agreement at an official signing ceremony on 6 May in Melbourne.

"In addition, post balance date, Bubs has entered an equity-linked alliance with **Chemist Warehouse** which will see all of Bubs infant formula and organic baby and toddler food products, as well as CapriLac adult milk powder products, ranged nationally in Chemist Warehouse stores from June 2019. Chemist Warehouse is Australia's largest pharmacy chain with over 450 franchised stores with over \$5 billion in retail sales, of which over \$200 million stem from infant formula. Importantly, the Chemist Warehouse Tmall Global store is the largest in the world by gross merchandise volume.

"We also tapped the lucrative post-infant segment with announcement in March of a new range of high margin **organic toddler snacks**, extending our market lifespan reach beyond first 1000-days of life. The product is to be ranged nationally in Coles supermarkets from May 2019 and has considerable potential in China where toddler snacks account for 30 percent of total infant nutrition sales, and growing at a rate of 17 percent year-on-year.



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"The acquisition in April of Melbourne based infant formula producer **Australia Deloraine Dairy** represents an important plank in our vertical integration strategy and supports our vision to expand our China business. Deloraine is authorised by the Certification and Accreditation Administration of China (CNCA) for physical importation of infant formula into China and has the capacity to process 10 million tins with its existing production line, which could be doubled with incremental capital expenditure, if required.

"Also in April, **C2 Capital Partners** directly invested \$31.44 million by way of private placement in Bubs and acquired further shares off market to bring its aggregate holding in Bubs to 15 percent. The funds raised from the C2 placement facilitated the Deloraine acquisition and provides growth capital to accelerate China market development and brand marketing," Mrs Carr said.

Mr Steve Lin, Managing Partner of C2 has been appointed Non-Executive Director on the Bubs Australia Board. Alibaba Group is an anchor investor in C2 Capital Partners.

### Cash Position

Bubs Australia reports the statutory cash reserves position at 31 March 2019 is \$13.00 million and normalised cash position \$21.12 million<sup>1</sup>. The quarterly normalised cash outflow position for operating activities is consistent with the cash outflow position in previous quarters and allowed for increased marketing expenditure and additional administration costs to support the Merger and Acquisition developments for the enlarged business.

The normalised cash position of \$21.12 million is arrived at after allowing for one-off payments and receipts outside of ordinary operating business including:

- \$6.7M contingent consideration (KPI) payment to Nulac Vendors as part of 2017 acquisition
- \$1.1M deferred consideration (Dilution) payment to NuLac Vendors as part of 2017 acquisition
- \$1.0M deposit payment to Deloraine for acquisition
- \$250K deposit payment to Tatura (outside of regular purchase orders)
- \$333K proceeds for exercised options
- \$600k loan repayment from Uphamgo

The cash position at 31 March 2019 excludes post balance-date \$7.44 million net proceeds from the C2 Capital Partners placement, over and above the funds required for the Deloraine acquisition.

The increased inventory position is consistent with the Company's inventory holding requirements to support anticipated Q4 sales.

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<sup>1</sup> Normalised cash position excludes one-off payments and receipts outside of ordinary operating business.



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Bubs Australia Appendix 4C Quarterly Cash Flow Statement for the period ended 31 March 2019 is attached and contains further detail of cash movements. The Report was lodged with the ASX on 30 April 2019.

Company information, results, market announcements and latest company news and policies can be found on the Bubs Australia Investor Centre: [www.investor.bubsaustralia.com](http://www.investor.bubsaustralia.com).

**END**

#### **Media and Investor Inquiries**

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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 bubs through its range of premium infant nutrition products. Bubs® speciality infant formula and organic baby food, cereals and toddler snacks cater for all feeding occasions and stages of development from newborn to preschool.

Bubs Australia is the leading producer of goat dairy products in Australia with exclusive milk supply from the largest milking goat herds in the country. Bubs® is proudly the only infant formula in the world to be based on 100% Australian goat milk.

Products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to New Zealand, China, South East Asia, and the Middle East.

Consumer Website: [bubsaustralia.com](http://bubsaustralia.com)  
Investor Centre: [investor.bubsaustralia.com](http://investor.bubsaustralia.com)

# Appendix 4C

## Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

**BUBS AUSTRALIA LIMITED (ASX:BUB)**

ABN

**63 060 094 742**

Quarter ended (Current quarter)

**31 March 2019**

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 Months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	9,035	25,293
1.2 Payments for:		
(a) research and development	-	-
(b) product manufacturing and operating costs	(11,536)	(35,944)
(c) advertising and marketing	(1,324)	(2,761)
(d) leased assets	(4)	(12)
(e) staff costs	(917)	(2,532)
(f) administration and corporate costs	(1,207)	(3,630)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	117	312
1.5 Interest and other costs of finance paid	(38)	(106)
1.6 Income taxes (paid) / refunded	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (Contingent consideration payment to Nulac vendors)	(6,700)	(6,700)
1.9 Other (Deferred consideration payment to Nulac vendors)	(1,092)	(1,092)
<b>1.10 Net cash from / (used in) operating activities</b>	<b>(13,666)</b>	<b>(27,172)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(24)	(54)
(b) businesses (see item 10) – net cash acquired	-	-
(c) investments (deposit paid to Deloraine acquisition)	(1,000)	(1,000)
(d) intellectual property	-	-
(e) other non-current assets: payments made in respect to 2.1(a)	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) 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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(1,024)</b>	<b>(1,054)</b>

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (9 Months) \$A'000</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	1,300
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	333	691
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Proceeds from loan repayments	643	593
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>976</b>	<b>2,584</b>
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	26,715	38,643
4.2 Net cash from / (used in) operating activities (item 1.10 above)	(13,666)	(27,172)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(1,024)	(1,054)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	976	2,584
4.5 Effect of movement in exchange rates on cash held	-	-
<b>4.6 Cash and cash equivalents at end of quarter</b>	<b>13,001</b>	<b>13,001</b>
<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1 Bank balances	4,001	6,015
5.2 Call deposits	9,000	20,700
5.3 Bank overdrafts	-	-
5.4 Other - Solicitor's trust	-	-
<b>5.5 Cash and cash equivalents at end of quarter</b> (should equal item 4.6 above)	<b>13,001</b>	<b>26,715</b>
<b>6. Payments to directors of the entity and their associates</b>		<b>Current quarter \$A'000</b>
6.1 Aggregate amount of payments to these parties included in item 1.2		158
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3		-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	Payments made in respect to director fees and salaries.	
<b>7. Payments to related entities of the entity and their associates</b>		<b>Current quarter \$A'000</b>
7.1 Aggregate amount of payments to these parties included in item 1.2		6,992
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3		-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	Disbursements relating to Director International Business travel for Bubs Australia Ltd & Prepayment of service fees to related entity.	

**8. Financing facilities available**

Add notes as necessary for an understanding of the position

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
2,000	2,000
-	-

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

NAB Bank Trade Finance 6.33% per annum unsecured
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**9. Estimated cash outflows for next quarter**

9.1 Research and development

9.2 Product manufacturing and operating costs

9.3 Advertising and marketing

9.4 Leased assets

9.5 Staff costs

9.6 Administration and corporate costs

9.7 Other (provide details if material)

9.8 **Total estimated cash outflows**

**\$A'000**

-

12,011

1,205

4

970

1,469

-

15,659

**10. Acquisitions and disposals of business entities**  
(items 2.1(b) and 2.2(b) above)

10.1 Name of entity

10.2 Place of incorporation or registration

10.3 Consideration for acquisition or disposal

10.4 Total net assets / (deficiency)

10.5 Nature of business

Acquisitions	Disposals
-	-
-	-
-	-
-	-
-	-

**Compliance statement**

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.



30.4.19

Signed:

Dated:

Company Secretary

Print name: Jay Stephenson

**Notes**

- The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- If this quarterly 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 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.