



FY19 ANNUAL RESULTS

30 August 2019

ASX: BUB
Bubs Australia

SCALABLE GROWTH



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Goodness



Very Best



Creating new generations of
happy, healthy bubs



Honesty



Playfulness



A PERIOD OF SCALABLE GROWTH



FY19

FOUNDATIONS FOR SUSTAINABLE GROWTH



- + Enhanced vertical integration and increased milk pool to meet growing demand.
- + Advanced China expansion strategy via channel development and key partnerships.
- + Extended infant nutritionals product portfolio into new segments and life stages.

FY20

PROFITABLE SCALABLE GROWTH



- + Build Bubs® brand equity to materially grow market share in Australia and China.
- + Leverage key strategic partnerships to generate rapid sales growth.
- + Product innovation in infant nutritionals and new market segments in goat dairy.
- + Expansion into selective new markets in Southeast Asia.
- + Optimise end-to-end supply chain, product and channel mix to improve margins.

01

FINANCIAL RESULTS



FINANCIAL HIGHLIGHTS

Record Growth Year

FY19 results are characterised by our exceptional revenue trajectory. The Company has continued to focus on building scale through channel development, gross margin improvements and further enhancing the integration of our supply chain.

\$46.8m

FY19 Gross Revenue Up 154% pcp

+153%

Domestic Net Revenue Growth Up (pcp)

+209%

China Net Revenue Growth Up (pcp)

Improved Margins

Significant uplift in revenue reflects market share gains in the most profitable products across all regions resulting in margin improvement.

\$21.6m

Bubs® products net revenue +223%

49%

Bubs® products share of Group Revenue

21%

Group Gross Margin* vs. 14% FY18

35%

Bubs® Gross Margin* vs. 20% FY18

\$23.3m

Strong cash reserves adequate to support FY20 operations

*Gross margin does not include the inventories written off.

FINANCIAL OVERVIEW



	FY19	FY18	% CHANGE
GROSS SALES	\$46.8m	\$18.4m	+154%
NET REVENUE	\$43.9m	\$16.9m	+160%
GROSS* PROFIT	\$9.2m	\$2.3m	+300%
GROSS MARGIN*	21%	14%	+50%
NORMALISED EBITDA	(\$5.9m)	(\$6.0m)	+1%
STATUTORY EBITDA	(\$34.0m)	(\$65.7m)	+48%

*Gross margin does not include the inventories written off.

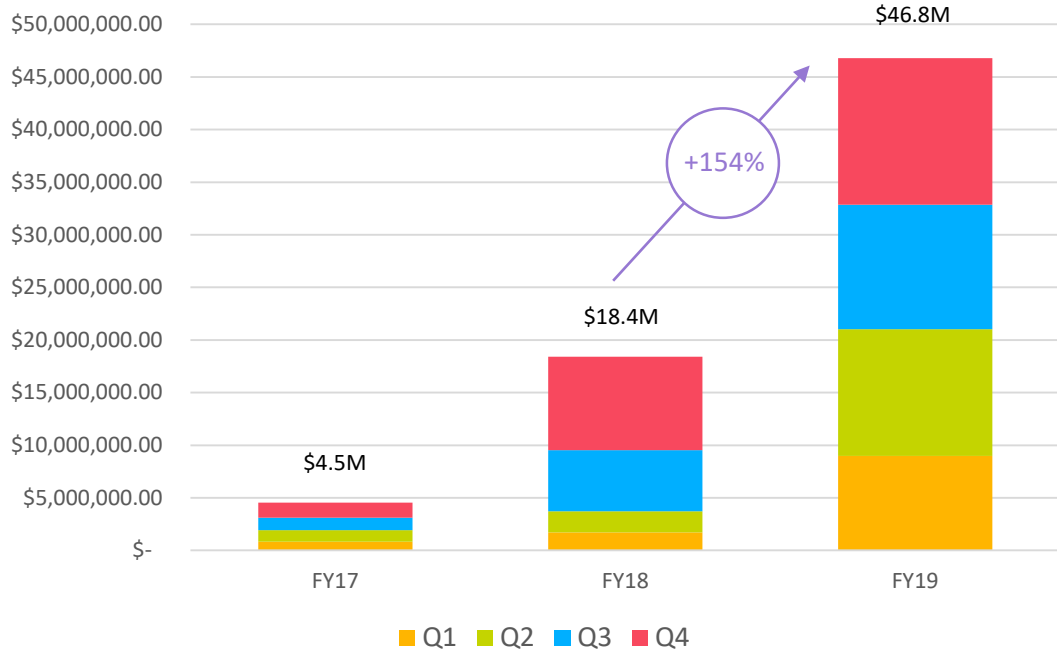
Key Drivers

- ➔ 2H19 gross margin improved to 23% vs. 19% in 1H19, due to the optimisation of product and channel mix, engaging new suppliers and improvements in allocating the milk pool. Bubs® products delivered 35% gross margin vs. 20% in FY18. Further group margin improvement is expected in FY20, with a full year realisation of one-step nutritional blending at Tatura and in-house processing at Deloraine.
- ➔ Strategic investment in building scale and sales momentum:
 - + Investment in marketing (9% net revenue) to support strong domestic presence and building brand awareness in China;
 - + Investment to reflect capability build in core markets and corporate, with increased headcount by 175% compared to FY18;
 - + Fixed operating and administrative costs typical of business in rapid growth.
- ➔ The overall statutory net loss of \$35.5 million incorporates expenses incurred outside of normal business operations:
 - + \$20.4m one-off non-cash expense for equity linked transaction with Chemist Warehouse
 - + \$5.9m fair value movement payable to NuLac Foods vendors related to 2017 acquisition
 - + \$1.3m share based payments for options issued in FY18
 - + \$897K corporate transaction expense associated with all FY19 M&A transactions
 - + \$719K finance costs relating to unwinding of deferred consideration payable
 - + \$404K inventories written off for discontinued products
 - + \$236K employee costs provision for the termination settlement with previous CEO

GROUP REVENUE



Quarterly Gross Sales Revenue



Key Drivers

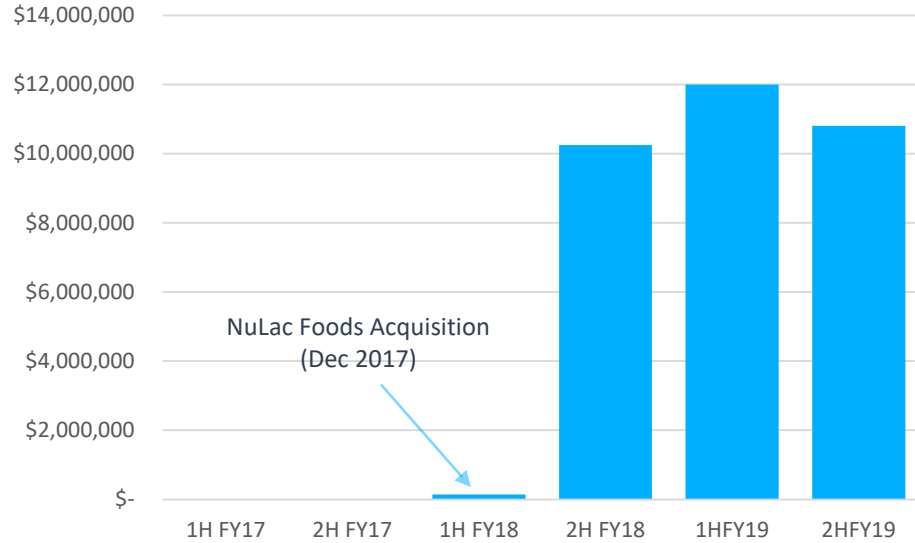
- Consistent strong growth since listing in 2017.
- Record 2H19 gross revenue: \$25.8 million; +75% pcp, and +22% on 1H19.
- Growth predominantly driven by sales of Bubs® products: +196% pcp, and +58% on 1H19.

PROFITABLE GROWTH DRIVERS

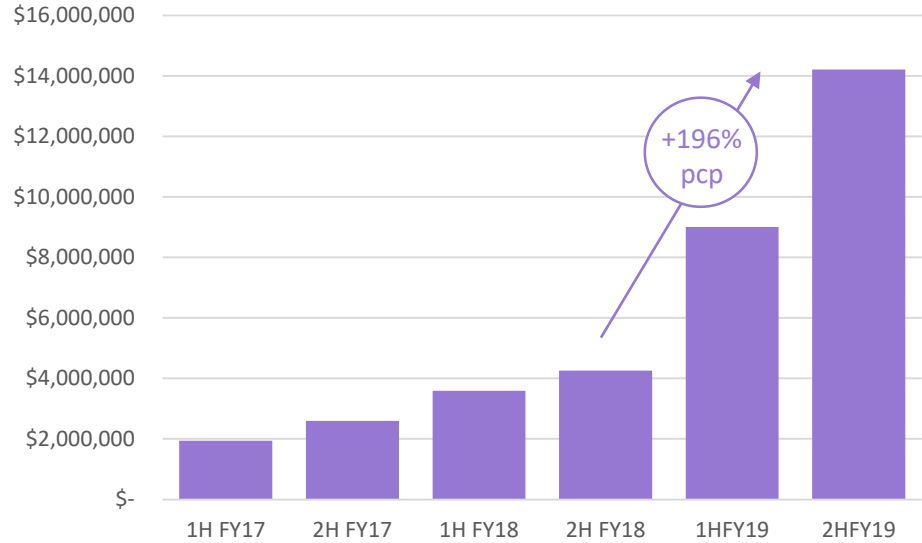


Half Year Gross Sales Revenue by Product Category

Adult Dairy Revenue



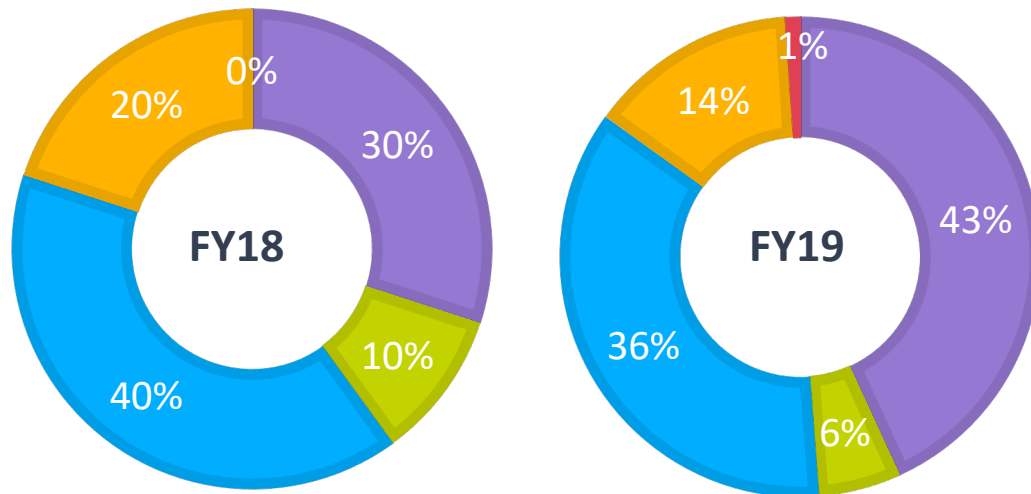
Bubs® Product Revenue



BALANCED PRODUCT MIX



Net Sales Revenue by Product Group



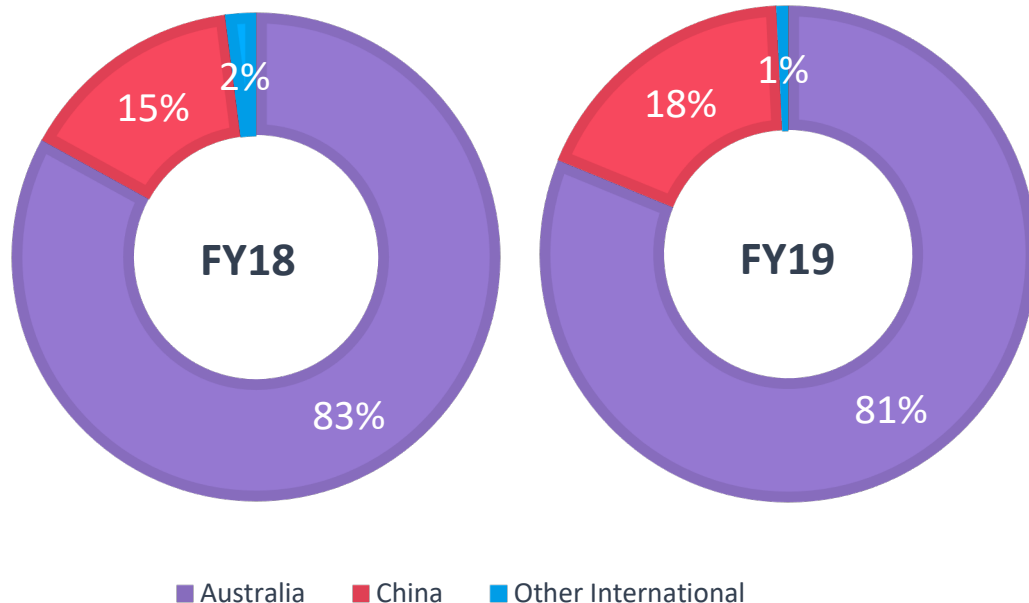
■ Infant Formula ■ Baby Food ■ Goat Milk Powder ■ Fresh Dairy ■ Canning Services

Key Drivers

- ➔ Bubs® products \$21.6 million, increased +223% pcp and +65% on 1H19.
- ➔ Adult milk powder \$15.6m increased +133% pcp .
- Enhanced focus on high margin products:
 - ➔ + Infant Formula sales increased +278% pcp and +80% on 1H19
 - + Infant Formula gross margin increased from 28% FY18 to 38% FY19
 - + Organic Baby Food sales increased +59% pcp
- ➔ GP growth will be further enhanced by vertical integration of Deloraine Dairy acquisition and full year recognition of one-step processing at Tatura.

REGIONAL CHANNEL MIX

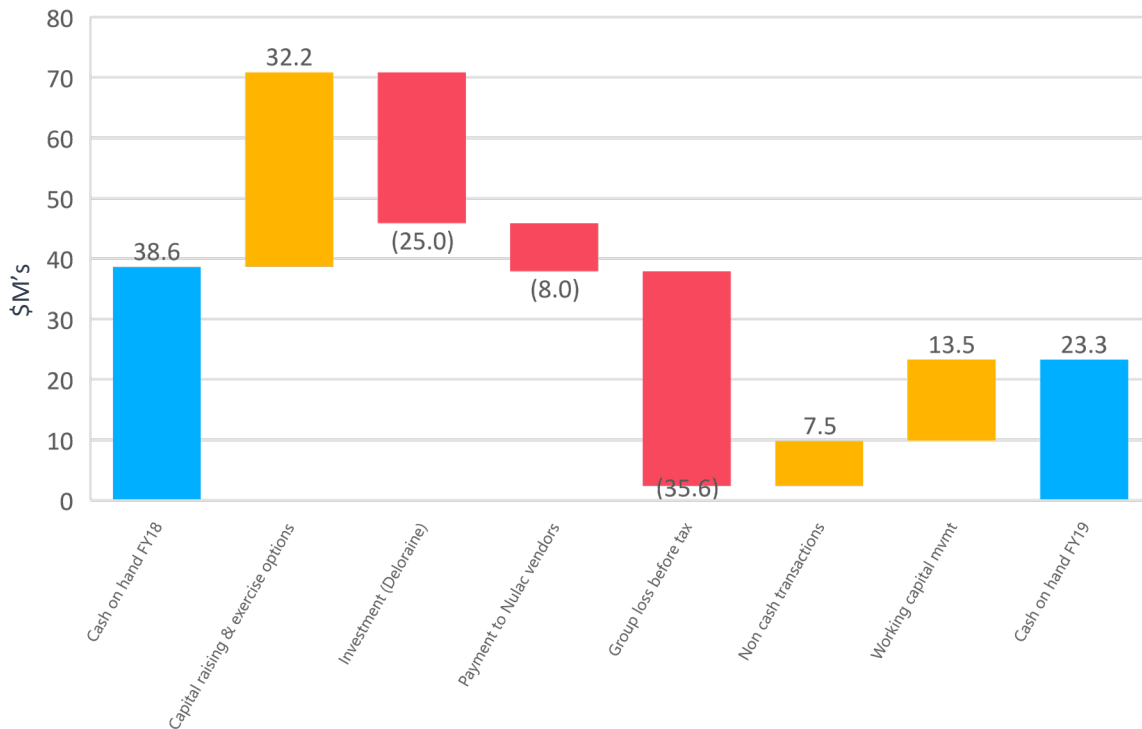
Net Revenue by Market



Key Drivers

- Domestic sales grew +153% pcp and +41% on 1H19, driven by strong domestic presence in major supermarkets, strategic alliance with Chemist Warehouse (from June), and activation of a new corporate Daigou partnership.
- Direct sales to China increased +209% pcp demonstrating strong traction gain continues with Chinese consumers following the deployment of marketing resources and contract wins in cross-border eCommerce and the Mother and Baby stores distribution channel.
- Aggressive growth strategy to continue to increase penetration into China via strategic partnerships.
- Launched Bubs® infant formula and baby food products in NTUC FairPrice, the largest supermarket chain in Singapore in Aug 2019. Exploring entry into new emerging Southeast Asian markets in FY20.

CAPITAL MANAGEMENT



Key Drivers

- Positive Q4 operating cashflow represents a significant improvement on the working capital management and cashflow management of the Group.
- Working capital movements are attributable to the investment in inventory to meet the growing demand and the increased trade and other receivables from the record Q4 sales.
- With this strong balance sheet and cash position, management believe the cashflow forecast is expected to meet all operational requirements for FY20.

02

STRATEGIC PROGRESS



OUR BUILDING BLOCKS



Bubs ability to leverage our foundation building blocks is what sets us apart. We have unrivalled strategic equity-linked partnerships and end-to-end vertical integration of our value chain.



FY19 STRATEGIC PROGRESS

Significant advancement on progressing our four Key Pillars critical to delivering growth.



INNOVATION AND PRODUCT DEVELOPMENT

- + Bubs Organic® Toddler Snacks
- + Bubs Organic® Grass Fed Infant Formula
- + Bubs® Goat Infant Formula - enhanced formulation with Australian milk

INCREASED DOMESTIC MARKET PENETRATION

- + National ranging for all Bubs® products in Chemist Warehouse
- + Launched on Amazon
- + Maintained or increased penetration in Coles, Woolworths, Costco, IGA, Big W and Pharmacy4Less

BRAND AWARENESS AND IMPACT

- + Increased Bubs® brand digital reach and social currency
- + Growth in consumer engagement via events and KOL endorsement
- + Increase in channel marketing activity
- + Launching new brand campaign in Q2 FY20 in Australia and China

ENHANCED ASIA FOCUS

- + Alibaba Tmall strategic partnership
- + Beingmate Joint Venture in Shanghai
- + Launched Bubs® baby food products in Kidswant
- + Daigou Activation
- + Launching Bubs® baby food on Alibaba's Hema App
- + Secured ranging of Bubs® infant formula and baby food products in NTUC FairPrice in Singapore.



PRODUCT EXPANSION



Grown Bubs® portfolio from 18 to 29 SKU's, now catering for all stages of development, feeding occasions and dietary requirements. Opportunity for further expansion in Adult Goat milk products.

Organic Toddler Snacks



Snack range to extend consumer lifecycle beyond first 1,000 days.

Infant Milk Formula Australian Goat Milk



Improved formulation - world's only infant formula to source 100% Australian goat milk.

Infant Milk Formula Organic Grass Fed



Australia's first Organic Grass Fed Formula with Pre and Probiotics.

Organic Baby Food, Cereals and Rusks



Adult Goat Milk Products



FY20 HERO PRODUCT LAUNCH



Australia's first organic grass fed infant formula with advanced formulation containing prebiotics and probiotics.



Key Highlights

- Long-term supply and manufacturing partnership with Fonterra Australia.
- First production completed in August 2019 with national roll-out into Chemist Warehouse from September.
- Enables Bubs® to offer both organic and goat options in the fastest growing premium segments.
- Leverage organic credentials inherent in brand DNA, whilst catering to all children regardless of dietary needs.



365 DAYS A YEAR

Our free-range cows graze outdoors, all year round.



GRASS FED

Our cows' diet is fresh green grass.



03

VERTICAL INTEGRATION



END-TO-END SUPPLY CHAIN

Providing secure, scalable vertical integration back to farm gate to deliver both traceability and flexibility.



1. Leading producer of >65% Australian goat milk products. Ownership of our goat milk pool, including 20 million litres of fresh milk from >20,000 goats in Australia and NZ.
2. One-step processing directly from fresh milk at farm gate to Tatura's nutritional spray dryer.
3. Flexibility in redirecting seasonal milk flow into our adult goat dairy brands.
4. 100% ownership of Australia Deloraine Dairy, a state-of-the-art CNCA certified infant formula canning facility.
5. 10-year deep relationships with organic food supply chain and certifiers.
6. Strategic partnerships with Chemist Warehouse, Alibaba Tmall and Beingmate, covering key retail routes-to-market.
7. Focus on increasing market share in home market as well as export to China and emerging Southeast Asian markets.
8. Organic milk sourced from Fonterra owned farms with cows fed 365 days on pasture.
9. Supply partnership with Fonterra to produce Australia's first organic grass fed infant formula with advanced formulation containing prebiotics and probiotics.
10. Bubs® brand is built on 13 years of Australian heritage that also resonates with Asian consumers seeking clean and green nutritional products.

GOAT MILK SUPPLY SECURITY



Bubs owns exclusive access to a secure, long-term premium goat milk supply in Australia and New Zealand.



Milk Pool Domination

- Bubs is the market leader in goat dairy, producing >65% of all Australian goat milk products. Our herd has grown to circa 20,000 milking goats across both Australia and New Zealand.
- In FY19 Bubs entered into a major new Milk Supply Agreement with Central Dairy Goats in New Zealand, securing the exclusive supply to 2.2 million litres in 2H19 and 6.2 million litres in FY20.



DELORAINE ACQUISITION



A critical acquisition supporting our vertical integration vision. Deloraine is purpose built with advanced infrastructure and capacity to process 10 million tins per annum.



Key Highlights

- 1 of only 15 CNCA accredited infant formula facilities in Australia.
- Deloraine carries SAMR brand nominations for both Bubs® Goat Infant Formula and Bubs Organic® Infant Formula, required for direct export to China - pending registration approval.
- The acquisition was enabled via a share placement to C2 Capital Partners, who now has an aggregate 15% holding in Bubs Australia.
- Alibaba Group is an anchor investor in C2 Capital Partners (C2). This profoundly valued partnership provides Bubs with unique China market insights and know-how. Consequently, C2's Managing Partner, Steve Lin has joined Bubs Board.

04

KEY PARTNERS



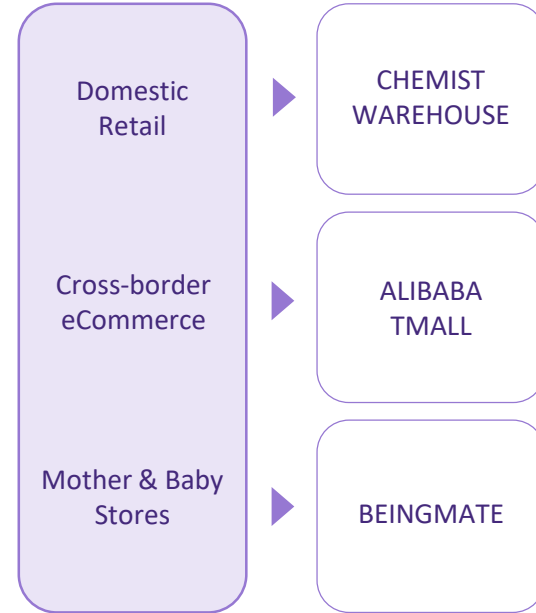
STRATEGIC PARTNERSHIPS



Bubs has now established unrivalled equity-linked and/or strategic alignment with leading industry retail giants representing each of China's key routes to market.



From left to right: Bob Bao, Beingmate CEO; Jessica Rudd, Alibaba Ambassador; Maggie Zhou, Managing Director of Alibaba Group (Australia and New Zealand); Dennis Lin, Bubs Australia Chairman; Kristy Carr, Bubs Australia Founder CEO; Jack Gance, Chemist Warehouse Co-founder and Chairman.



INCREASED DOMESTIC PENETRATION



In Q4 Bubs entered a strategic equity-linked agreement with Chemist Warehouse, securing a giant retail footprint and significant sales and marketing support for Bubs® full range of products in our home market.



Chemist Warehouse

- A four-year agreement with Australia's leading pharmacy retailer, securing long-term ranging of all Bubs® 29 products across 450 stores nationally.
- Chemist Warehouse to provide sales and marketing services for a fee to purchase up to circa 49 million shares in Bubs over 3 years, linked to aggressive sales performance targets. In accordance with accounting standards, a one-off non-cash expense of \$20.4 million has been booked into the FY19 accounts.
- Provides a strong gateway to China, including access to the Chemist Warehouse Tmall Global store, the largest in the world by gross merchandise volume.

B2C CROSS-BORDER E-COMMERCE



In Q4 Bubs entered into a strategic cooperation agreement with Alibaba Tmall.



Alibaba

- ➔ Launching Bubs Organic® baby food on the Alibaba Hema App for collection in their stores across Beijing and Shanghai in Q1 FY20.
- ➔ Planned relaunch of Bubs® and CapriLac® Tmall Global Flagship stores managed by top rating TP service providers.
- ➔ Innovation and distribution strategy underway to expand adult goat dairy segment in Alibaba's general trade and cross-border channels.
- ➔ In-channel brand marketing programs, livestreaming and event participation based on rich data consumer insights and traffic optimisation.
- ➔ Key sponsor at the Alibaba eCommerce expo in Sydney; 30-31 August 2019.

IN-MARKET REPRESENTATION



In Q4 Bubs established a Joint Venture with Beingmate Baby & Child Food Co., a leading Chinese owned enterprise specialising in the infant nutrition industry, with a distribution network covering 30,000 Mother and Baby stores.



July 2019: Joint Venture team hosts Bubs® stand at the Children Baby Maternity Expo in Shanghai, the world's largest trade fair for infant products.

Beingmate

- The Joint Venture will manage the sales, importation, distribution and marketing of all Bubs® products in China.
- Office established in Shanghai with dedicated cross-functional team, with the ability to tap into Beingmate's extensive infrastructure and processes, serviced by 2,200 employees.
- Beingmate has strong R&D capabilities and regulatory expertise, with 51 of their own infant formula products successfully registered with SAMR, including the first registration ever granted under the new regulations. Together we are actively pursuing Bubs® brand applications and remain respectful of the process.

CHINA MOTHER AND BABY STORES



In June, the Beingmate JV entered into a strategic channel partnership with Kidswant, China's leading mother and baby retail chain with annual turnover of RMB 10 billion (AUD 2 billion).



Kidswant

- Bubs Organic® food products ranged in 275 physical stores in 123 cities, covering 60% of China's key cities with population >500,000.
- Expected retail sales value of RMB 30 million (AUD 6 million) in first year.
- Access to Kidswant's CRM program with highly active membership community of 27 million parents.

A top-down photograph of a baby lying on a grey mat with white grid lines. The baby is wearing a pink bow on a headband and a pink bib. Several white pouches of baby food are scattered around the baby. One prominent pouch is labeled 'bubbs organic' and 'Baby Banana & Cereal'. The pouches feature a purple smiley face logo and images of the ingredients.

05

SCALABLE
GROWTH

SCALABLE GROWTH

The strategic foundational building milestones we passed in FY19 means we are well placed to pursue our goals towards delivering profitable and sustainable growth. Whilst we continue to scale the business at a rapid pace, we are confident of achieving overall profitability in FY20.

VALUE CHAIN INTEGRATION



- + One-step processing (came into effect in April 2019) improves input costs.
- + GP improvement via in-house production at Deloraine.
- + Actively grow the milk pool at a controlled price.
- + Explore opportunities to further enhance the vertical integration of business operations, specifically key dairy ingredients.

OPTIMISE PRODUCT MIX



- + Invest resources and marketing to support growth of most profitable product lines.
- + Down-weight or delete low margin products.

NEW PRODUCT INNOVATION



- + Extend Bubs® nutritional product portfolio; the most profitable sector of the business.
- + Continue to adapt Bubs® full portfolio of products to be suitable for China.
- + Custom goat dairy products for emerging Southeast Asian markets.

DRIVE CHANNEL DEVELOPMENT



- + Continue to engage Daigou channel and C2C activation for highest ROI.
- + Progress SAMR registration application.
- + Target new Southeast Asian markets.

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