



Bubs Australia Limited  
ACN 060 094 742  
23-29 Nina Link, Dandenong South  
VIC 3175 Australia

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

## **2019 ANNUAL GENERAL MEETING: CHAIR AND CEO ADDRESS** **Sydney, 29 November 2019**

Good morning ladies and gentlemen. The Annual General Meeting is about to begin. I am Dennis Lin, Executive Chairman of Bubs Australia Limited and will be chairing the Meeting today.

As you will have seen this will include ratification of prior issues of shares, and the resetting of the Company's share placement capacity.

### **Chair and CEO Address**

Before the formal business of the Meeting, Kristy Carr and I will take you through a brief overview of our performance for the year, and key developments. We will finish the Meeting with the formal business, at which point we will welcome your questions and comments on the resolutions before the Meeting.

The Notice of Meeting was sent to shareholders on 29 October 2019 and accordingly sufficient notice of the business of this Meeting has been given.

Since you will have by now received the Notice of Meeting and accompanying materials, with your permission we will take the Notice of Meeting as read. The Company Secretary has confirmed that the Meeting is properly constituted, and that a quorum is present, that proxies have been inspected and all those validly lodged have been accepted.

We would also like to introduce our auditor for FY2019, Justin Law and Jacob Gossan from EY, who will also be available to answer questions at the end of the CEO's presentation.

Firstly, we would like to introduce our Board members:

- Kristy Carr - CEO and Executive Director
- Matthew Reynolds - Non-Executive Director
- Steve Lin - the Managing Partner of C2 Capital and Non-Executive Director
- Jay Stephenson - Company Secretary

### **Financial Highlights**

By way of introduction, this has indeed been a landmark year in our history as a listed company. The support of our investors in the Bubs vision and journey since listing have been rewarded with the Company becoming a member of the ASX top 300.

Our marketing efforts have delivered remarkable revenue growth, demonstrating the capacity of the underlying platform to sustainably accommodate growth and respond effectively to changing market dynamics in existing markets, and enter new emerging markets and category segments.



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Our first half of the year was characterised by expanding our domestic reach and laying the ground for further channel expansion into China's Mother & Baby store segment to complement our very productive engagement with increasingly sophisticated corporate Daigou or resellers.

The second half of the year saw the achievement of further fundamental strategic developments such as the one-step goat infant formula processing agreement with Tatura Milk Industries (Bega Cheese), partnering with Fonterra Australia to launch Bubs Organic® grass-fed cow's milk infant formula, and a unique equity-linked partnership with Chemist Warehouse.

The strength of our vision was reinforced in the fourth quarter with C2 Capital Partners, in which Alibaba Group is an anchor investor, acquiring a 15 percent stake in Bubs Australia, allowing us to proceed with the acquisition of CNCA approved Australia Deloraine Dairy to pack our infant formula and dairy products.

Following this transaction, we were privileged to welcome Steve Lin, the Managing Partner of C2 Capital Partners, to the Board. C2's investment in Bubs is a tremendous vote of confidence in our long-term vision.

As we go forward into FY20, we will see three growth engines shaping our business:

1. Sustainable leadership in vertical supply chain value creation;
2. Deepening consumer brand connection to drive scale and improved margin; and
3. Expansion into new non-infant growth segments.

We will discuss these later in the presentation, however thinking about these drivers it is worth noting:

- The goat milk industry has been transformed from niche to scale production of which only 1% is available for conversion;
- There is potential scope to improve our goat milk yields by upwards of 50% through advanced husbandry; and
- Scale brings improved margins, and we now see a pathway to a 40% gross margin across our infant formula portfolio.

### **Group Financial Review**

With that in mind, let us turn now to our financial results in more detail.

The positive momentum generated in FY19 by our strategic focus and marketing investment saw continued strong sales momentum throughout the year, delivering a near tripling of gross revenue to \$46.8 million (net \$43.9 million) for the full year.

This included a material uplift in sales across all core product offerings, with the strongest growth coming from Bubs® goat milk infant formula range.



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Domestic sales increased by 153% to \$35.7 million, principally generated through:

- marketing initiatives to raise brand awareness;
- increased store count in Coles and Woolworths;
- deeper penetration in the pharmacy channel towards the back end of the year; and
- active engagement with the Australian based and highly productive corporate Daigou Channel.

Within that, the Corporate Daigou Channel continues to play an important role in building brand awareness in China through syndication of digital content. Bubs partnered with hundreds of Key Opinion Leaders to participate in product reviews, farm tours, and live-stream events. Bubs® is now sold in approximately 250 Chinese souvenir stores throughout Australia.

Direct to China export net sales increased 209% on FY18 to \$7.9 million driven by expanded marketing activity and sales platform contract wins. In addition, following successful import registration, Bubs Organic® Chinese label baby food products are now being directly imported and distributed into physical Mother and Baby stores throughout China, including the market leading Kidswant chain.

Changes in product focus, channel mix, and the gaining of scale led to the 50% increase in the Group's gross margin<sup>1</sup> to 21% for the full year.

Within that, the Bubs® portfolio margin almost doubled to 35% for the year (38% for IMF). Further margin improvement remains a key focus for the business in FY20 with a line of sight to achieving 40% across Bubs® portfolio in the near term.

Our financial results for FY19 continued to reflect the significant and essential investment in brand marketing, channel capacity, new product development, and our end-to-end supply chain, as we build momentum in our core domestic business and progress our partnerships with regard to penetrating the Chinese and other South East Asian countries.

We also bore initial high costs associated with establishing process integration relating to the NuLac Foods and Australia Deloraine Dairy acquisitions.

During the period we commenced data analytics to provide visibility of inventory, end consumers, and the key regions we wish to target.

Importantly, investment in data analytics will optimise supply chain planning, which is a critical element for our vertically integrated business.

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<sup>1</sup> Gross margin does not include the inventories written off.



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### **Goat Dairy Market Leader**

We continue to be the market leader in goat dairy production. Through the NuLac Foods acquisition and subsequent contracts we have exclusive access to the largest aggregation of milking goats in Australia, some 23,000 herd producing over 20 million litres of goat milk that is converted to approximately 1,750 tonnes of processed powder.

This gives Bubs an unrivalled market lead and ensures the scalability to match our growth aspirations, whilst providing the security and traceability in our supply chain.

### **Sustainable Milk Pool Growth Rates**

The goat dairy industry has gone from niche to industrial scale in a very short period. Through independent research papers, we understand only 1% of the world's 20 million metric tonnes of fresh goat milk is converted to powder, of which 1,750 metric tonnes or 7.5% is produced by Bubs Australia.

In Australia and New Zealand (where we source our goat milk for CapriLac®), Bubs account for a material amount of all goat milk available for conversion into powder. For Bubs, our supply is scalable and moreover there is improved milking growth potential.

We are proud of our Australian heritage and our support of local farmers, and we will continue to support our farmers to invest to sustain long-term growth and maximise regional job opportunities.

### **Growing To Benefit All Australians**

With Bubs having exclusive access to two thirds of the Australia goat milk pool we have been uniquely placed to create the world's first infant formula brand with 100% Australian goat milk, fully traceable back to the farmgate.

Our current milk pool represents around 7 million tins of goat milk infant formula and gives a remarkable flexibility to scale production when required.

These factors coupled with the ownership of one of only fifteen CNCA fully accredited infant formula packaging and export facilities in Australia, means we are extraordinarily well placed to become a global player while promoting regional opportunities and jobs.

And while infant formula currently provides Bubs with the highest and best use margin, as our business evolves we will continue to actively seek out the best opportunities for goat dairy, some of which we will outline shortly.



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## Strategic Focus

Our foundation building blocks set us apart. They remain as valid now as they have through our listed history. We have a 13-year heritage built on premium provenance, a loyal domestic consumer base, and a history of product innovation.

In addition to having exclusive access to two thirds of the Australian goat milk supply chain, we have our own canning facility, key strategic partnerships with Chemist Warehouse and Alibaba Tmall, and an all critical China in-market platform through our joint venture with Beingmate.

These are the foundations of our vertically integrated business – unique in the Australian marketplace.

Going into FY20 our go forward strategy envisages continued focus investment in both marketing and consumer acquisition as well as the supply chain fundamentals.

In the supply chain, our milk pool is eminently scalable and thus gives confidence to ensure sustainable leadership in vertical supply chain integration. Having circa 7.5% of the world goat milk powder production, this foundation provides an exceptional position for growth, and from which to invest in new and higher value goat milk-based products and expand into new key markets.

As a brand, we will invest in deepening our customer connection to drive scale and improved margin. With our own marketing data and consumer analytics through working with our partners, we can leverage insights to offer differentiated product solutions across key consumer needs and feeding occasions, as well as directing marketing investments in the most efficient manner.

While Bubs® goat milk infant formula is our key focus, the recent launch of Bubs Organic® grass-fed infant formula greatly extends our reach with parents who have come to trust the Bubs quality and want the choice of premium organic cow milk based infant formula.

Importantly, our award-winning organic baby food lends credibility to our move into organic formula and is critical to extending brand reach and new user recruitment.

Data analytics is instrumental in accessing the significant growth potential sitting within China's Online-to-Offline (O2O) retail channel, which will proceed independent of the SAMR registrations currently in evaluation.

There are many opportunities for growth through non-infant extensions to our core goats milk portfolio. This can be seen in the recent launch of the Deloraine® brand specialty adult goat dairy range, as well as participation in adjacent markets.

With these building blocks in place, we are well positioned to expand our footprint within Asia, and indeed have made our first steps with the recently announced launch into the fast-growing Vietnam market, helping drive overall scale and reach – underpinning future product expansion.



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### **New Retail – Data Driven Marketing**

Participation in the Alibaba Global Shopping Festival was the start of our drive to build our pipeline with advanced user acquisition and retention initiatives targeted at selected demographic segments and all-important first-time users. In building a premium brand, we have chosen to attract new users and customers with our key value propositions and provenance, rather than through price discounts.

With the technology and consumer insights that are now available, we believe new retail involves the genuine integration of utilising technology to direct investments in a more precise manner that would attract higher conversion rates, than simply traditional media outlets such as billboards, though the traditional channels will continue to be part of our broader strategy, to the extent we are able to understand the prospective return on investment.

### **Scale New APAC Markets**

The Southeast Asia baby food market is growing rapidly, and is expected to grow to US\$8 billion by 2023, a CAGR of 4%. The Vietnamese infant nutrition market is worth some A\$2.2 billion per annum growing at a CAGR of 7.7% over the last five years. The infant milk category is worth some A\$1.8 billion.

In November 2019 we announced a Master Distribution Agreement with TVV Service and trading Company, which distributes to some 20,000 retail outlets, and through TVV, a sub-agreement with Vietnam's largest Mother & Baby store chain, Bibo Mart, with planned sales of A\$1.5 million in the first year through its 135 stores.

We are also planning to enter the Hong Kong market, an important jurisdiction and stepping-stone that will project the Bubs brand to both Asia and our international consumers.

### **Junior Nutrition**

We have made frequent mention of the potential for extending the lifecycle use of Bubs originated products within families. In FY19 we took our first step with the introduction of toddler snacks. Applying the same logic, we are developing goat milk formulations designed specifically for the 'Junior' age category (age 3-6 years). This is currently a \$1bn market enjoying double digit growth in China.

Through our strategic relationship with CCIC Australia that was announced during the recent China International Import Exhibition, we have progressed the China label 'Junior Nutrition' products and provided an early opportunity to penetrate the general trade market through our Beingmate Joint Venture and partnership with Kidswant Mother and Baby stores.

We intend to market the range in Australia as well as internationally.



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## **Adult Premium Formula Market**

In November, post-balance date, we partnered with Alibaba Centralised Import Procurement unit ("CIP") to import into China an innovative portfolio of adult goat dairy formulations including CapriLac® and the new Deloraine® brand. This arrangement supersedes the New Times Asia agreement which will come to its conclusion after our last supply of products in December 2019.

All adult goat dairy products will be manufactured at our Australia Deloraine Dairy facility in Victoria. As mentioned earlier, this is a state of the art CNCA approved facility.

This market is expected to grow at 10% CAGR between now and 2023. Within the segment, active singles and couples, like their ageing counterparts, are seeking nutritious products for health and wellbeing. This represents an opportunity to further develop a premium adult range deploying a science-based proposition to appeal to Chinese millennials.

## **Growing Ageing Market**

Most milk in China is consumed by the fast growing 50+ age group. As in infant milk formula, premiumisation is at play as the seniors market seeks nutritious formulations to address specific health concerns related to ageing. The population of this demographic is currently over 200 million people in China and expected to continue to increase. This represents another opportunity to expand into adjacent markets.

## **Conclusion**

In summary, we are well placed to pursue our strategic goals towards delivering profitable and scalable sustainable growth.

It has been well documented that the birth rate in China is declining, and we face increasing competition in our category of specialty ultra-premium infant nutrition. However, with our underlying influence on the supply chain, our proud Australian heritage and brand integrity, we remain confident of delivering our strategic objectives, and in the process deliver returns for shareholders.

As we continue to scale the business taking into account market factors, we will continue to explore ways to deliver growth and stay ahead of the competition. To that end, we are exploring the need to accelerate some of our investments in marketing and also new product pipelines so that we are able to take advantage of the opportunities that are ahead of us.

Thank you for your ongoing support throughout the year. We are proud of our talented team's achievements and their dedication in executing our expansion strategy to create the next Australian success story in a dynamic category with enormous global potential.

**END**



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### **Media and Investor Inquiries**

Deanne Curry  
Ph. +61 2 8353 0401  
[investors@bubsaustralia.com](mailto:investors@bubsaustralia.com)  
[media@bubsaustralia.com](mailto:media@bubsaustralia.com)

### **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® goat milk and organic grass-fed infant formula ranges, 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 Australian goat milk.

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

**Consumer Website:** [www.bubsaustralia.com](http://www.bubsaustralia.com)

**Investor Centre:** [www.investor.bubsaustralia.com](http://www.investor.bubsaustralia.com)