

A young child with dark hair, wearing a green patterned long-sleeved top and tan pants, is walking barefoot on a sandy beach. The child is smiling and looking towards the right. The background shows gentle waves on the ocean under a soft, hazy sky.

bübs®

Growing Generation Joy

ASX: BUB
Bubs Australia

FY20 HALF YEAR INTERIM RESULTS

26 February 2020



Very Best



Creating new generations of
happy, healthy bubs



Honesty



Playfulness



Goodness

AGENDA

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01

FINANCIAL RESULTS



1H20 CONTINUED **MOMENTUM AND SCALE**



Continuing solid trajectory to grow topline revenues and build on robust capital base.

- ➔ Continued focus on executing our foundation strategy with key partners to build on strong competitive advantage and unique assets.
- ➔ Growth trajectory for Chinese consumer awareness and demand for our core Bubs® Goat Infant Formula remains strong.
- ➔ Woolworths major supply agreement set to double our domestic market penetration and help drive incremental growth in 2H20.

FINANCIAL HIGHLIGHTS

Record revenue results and gross margin improvement.



1H20 results were driven by the strong performance of Bubs® infant formula in all retail channels and regions.

\$28.8m
1H20 Group Gross Revenue

+37%
prior corresponding period



+77%
Infant Formula Gross Revenue growth pcp.

+99%
Infant Formula Direct Sales to China doubled pcp.

41% GP
Infant Formula Gross Margin* up 5 basis points pcp.

*Gross margin does not include inventories write down and net realisable value adjustments.

FINANCIAL OVERVIEW



	1H FY20	1H FY19	% CHANGE
GROSS REVENUE	\$28.75M	\$21.00M	+37%
NET REVENUE	\$27.10M	\$19.54M	+39%
GROSS MARGIN*	24%	19%	+24%
NORMALISED EBITDA LOSS	\$3.74M	\$3.56M	-5%
STATUTORY EBITDA LOSS	\$5.25M	\$8.52M	+38%

Key Drivers

- Total gross revenue of \$28.75m, +37% pcp.
- Significant margin improvement, +24% pcp.
- The overall statutory net loss before tax of \$7.7 million, incorporates expenses incurred that are non-cash or outside of normal business operations:
 - + \$171k corporate transaction expense associated with FY19 M&A transactions
 - + \$568k net finance costs, of which \$498k relate to unwinding of deferred consideration payable
 - + \$974k share based payments for options issued in FY20
 - + \$329k inventories written off for discontinued products
 - + \$1.88m depreciation and amortisation
 - + \$39k share of net loss of Joint Ventures accounted for using the equity method

* Gross margin does not include inventories write down and net realisable value adjustments.

EXPENSES OVERVIEW



	1H FY20	1H FY19	% CHANGE
DISTRIBUTION AND SELLING COSTS	\$790K	\$679K	+16%
EMPLOYEE COSTS*	\$2.85M	\$2.14M	+33%
MARKETING AND PROMOTION COSTS	\$4.81M	\$1.30M	+269%
ADMINISTRATION AND OTHER COSTS**	\$1.71M	\$2.86M	-40%

Key Drivers

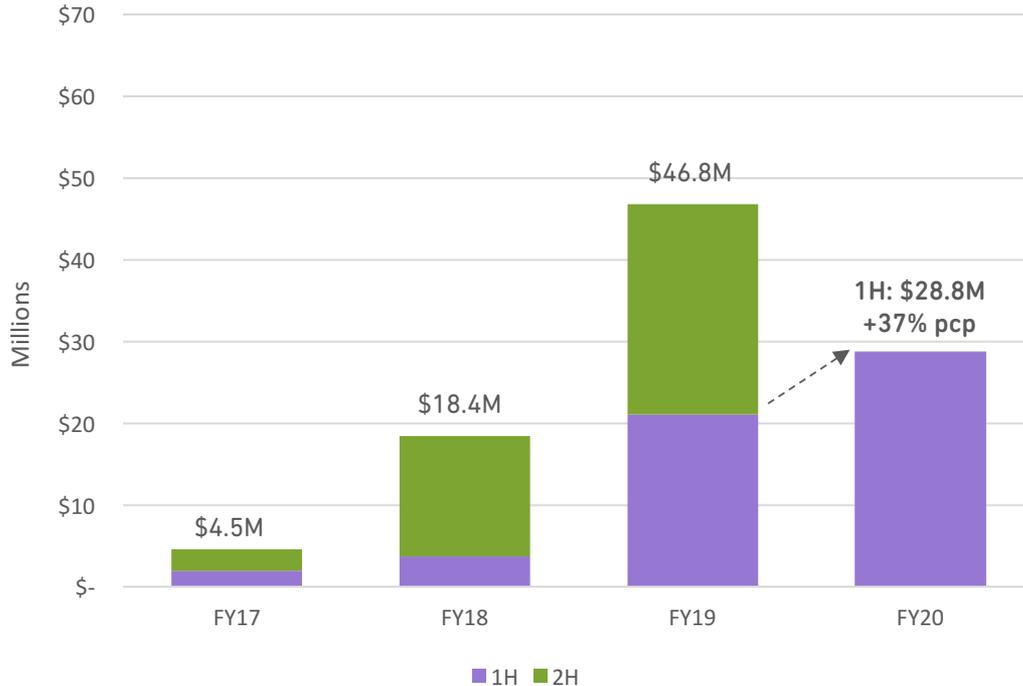
- ➔ Distribution costs / Net revenue % at 3% (1H FY20) remain consistent with prior periods.
- ➔ Employee costs* / Net revenue % at 11% (1H FY20) remain consistent with prior periods; headcount has increased 90% compared to 1H FY19 to build organisational capability to support continued growth.
- ➔ Marketing / Net revenue % at 18% (1H FY20) vs 7% (1H FY19) to support strong domestic presence and building brand awareness in China to deliver medium and long term profitable growth.
- ➔ Administrative costs** down 40% pcp is due to:
 - Reclassification as a result of AASB 16 adoption
 - Effective cost management on administrative costs
 - Disposal of Uphamgo Joint Venture

* Employee costs do not include share based payment and acquisition related costs.

** Administration and other costs do not include depreciation and amortisation

GROUP REVENUE

Half Yearly Gross Revenue.



Key Highlights

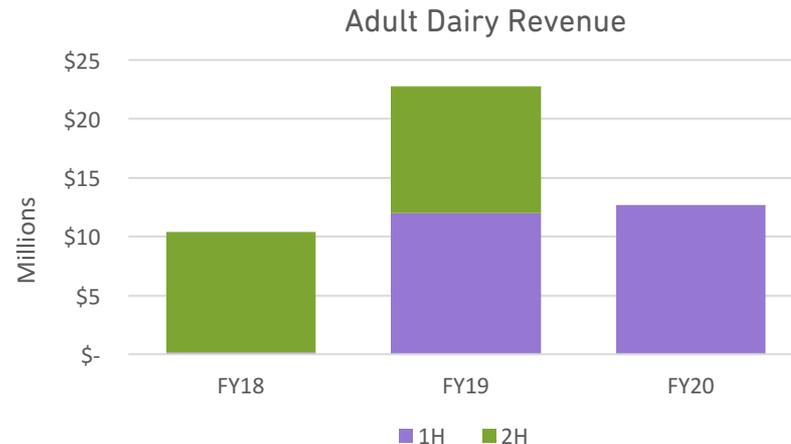
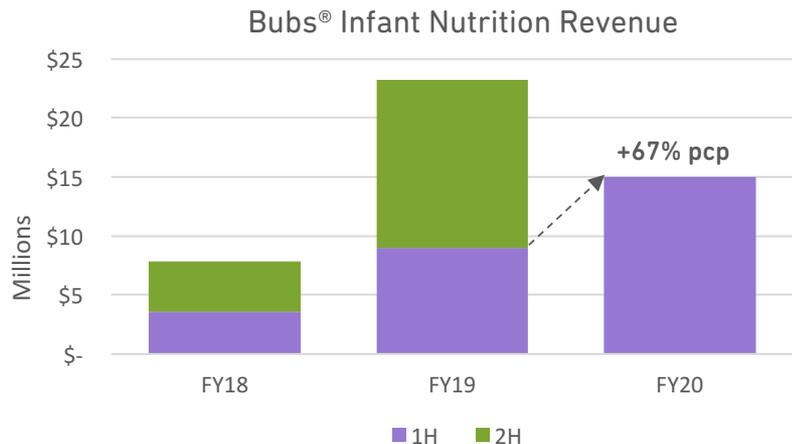
- Consistent half-year growth trend since listing in 2017.
- Record gross revenue in 1H FY20; **+37% pcp**.
- Bubs® Goat Infant Formula remains key driver; **+77% pcp**.
- Stronger forecasted demand for infant formula is expected in 2H FY20 across all distribution Channels.
- New markets and new product launches expected to build on existing foundations to drive incremental revenue streams.

MULTIPLE REVENUE STREAMS



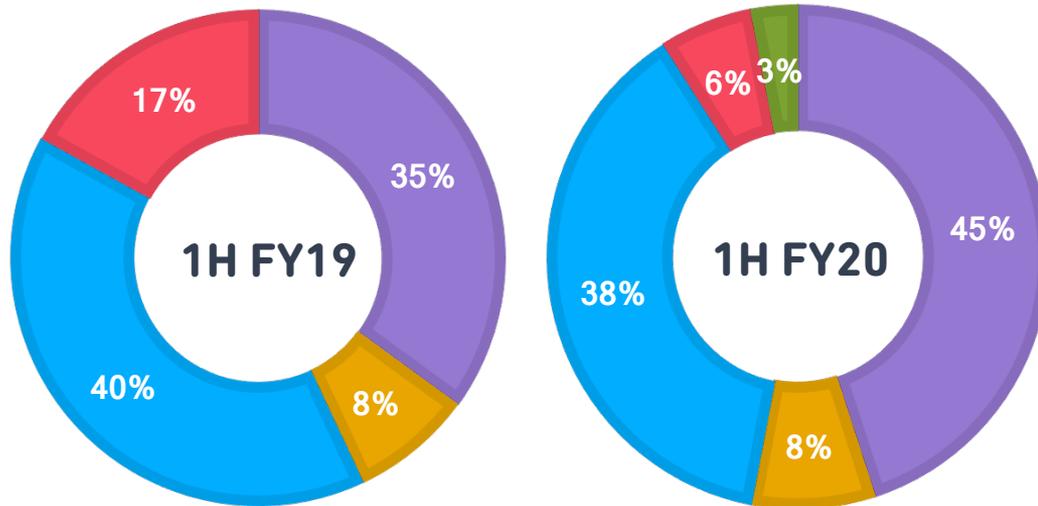
Gross Revenue by Product Group.

- 1H FY20 growth predominantly driven by sales of Bubs® infant formula products, delivering the highest margin within group portfolio:
 - Infant Formula: **+77% pcp**
 - Baby Food: **+23% pcp**
- Goat Milk Powder delivered healthy revenue growth in 1H FY20, although the entire Adult Dairy portfolio growth profile was impeded by the loss-making deletion of yoghurt products and disposal of Coach House Dairy® brand assets:
 - Adult Goat Milk Powder: **+30% pcp**
 - Fresh Milk/Yoghurt: **-49% pcp**



PORTFOLIO PRODUCT MIX

Gross Revenue Share by Product Group.



■ Infant Formula ■ Baby Organic Food ■ Adult Powder
■ Fresh Dairy Products ■ Deloraine Manufacturing

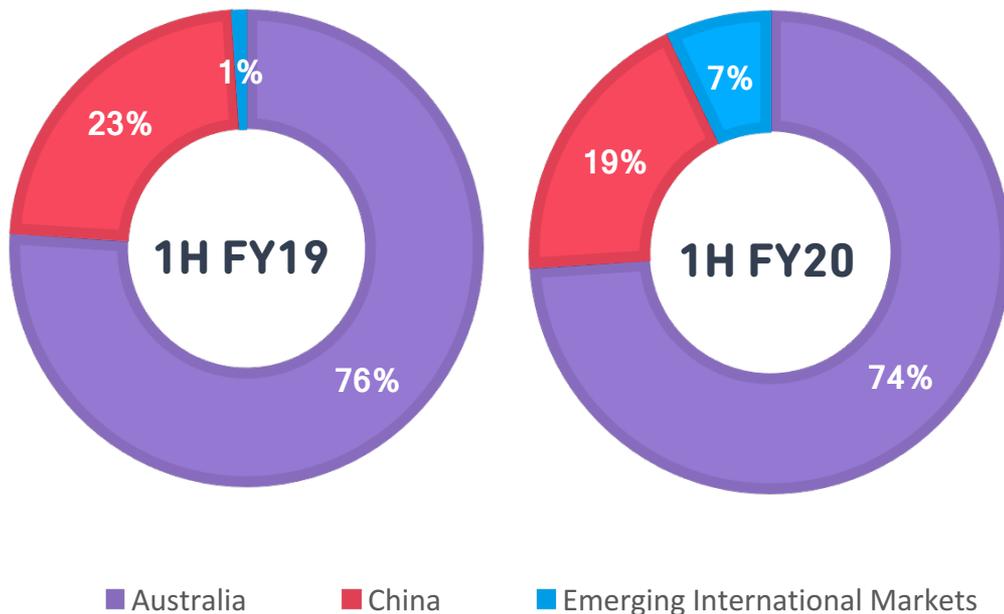
Key Drivers

- Increased focus on investing in growth of high margin products, primarily infant formula.
- Bubs® products accounted for 53% of total net revenue in 1H FY20 vs 43% in 1H FY19.
- Deliberate reduction in fresh dairy product lines due to poor profitability.

REGIONAL MARKET MIX



Gross Revenue Share by Region.



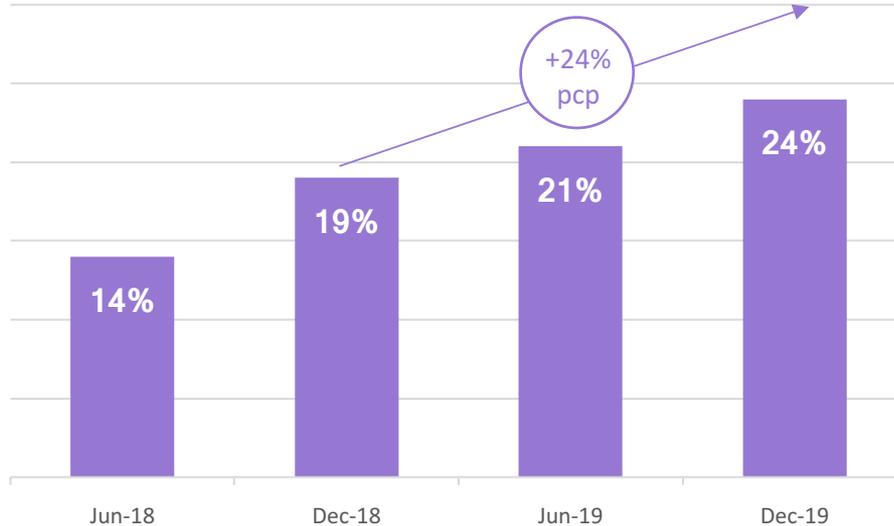
Key Drivers

- Domestic gross revenue in 1H FY20 increased **+30% pcp**, driven by strong penetration in Coles and Woolworths, and launch into Chemist Warehouse.
- Corporate Daigou Channel continues to grow month-on-month, with 1H FY20 revenue up **+52% pcp**.
- Direct sales to China in 1H FY20 increased **+19% pcp**, with Infant Formula almost doubling in sales up **+99% pcp**, demonstrating strong traction with Chinese consumers following the establishment of new partnerships with Alibaba Tmall and Beingmate, and deployment of increased marketing resources.
- 2H FY20 ranging of Bubs Organic® Grass Fed Infant Formula and Bubs® Junior Nutrition new products in Woolworths will further strengthen domestic penetration.
- New distribution partnerships for Bubs® products in Vietnam and Hong Kong will contribute further growth from Southeast Asian markets in 2H FY20.

GROSS MARGIN IMPROVEMENTS



Gross margin improved 24% pcp with Bubs® Infant Formula gross margin at 41%.



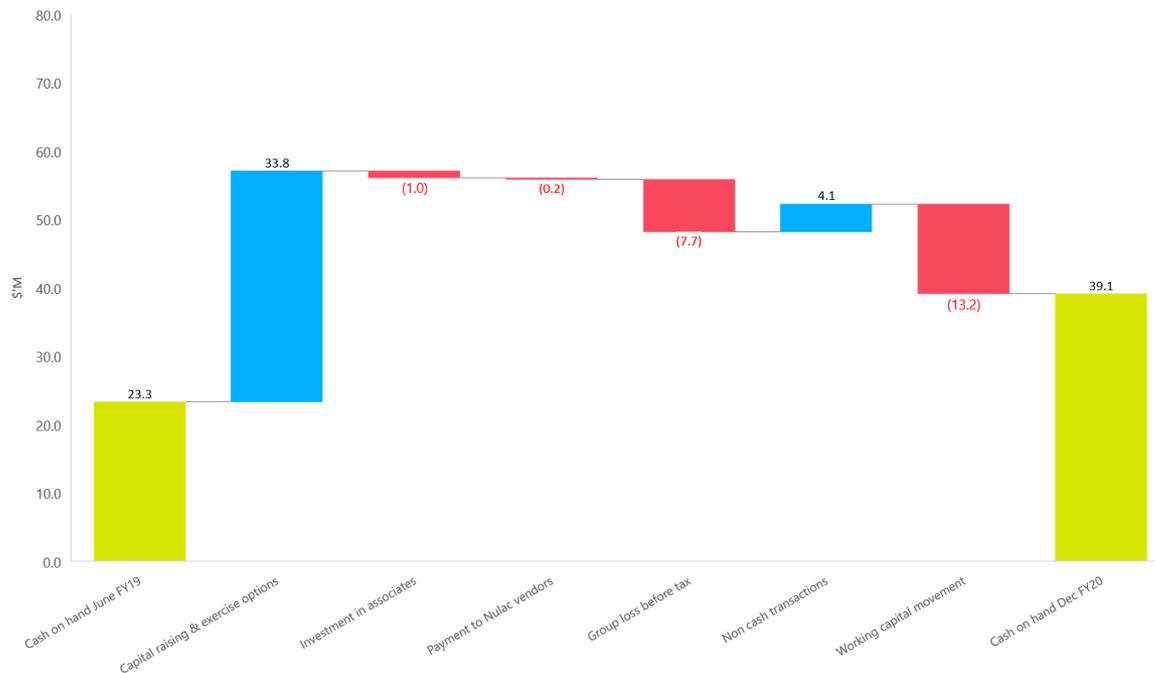
Key Drivers

- Strategic partnership with Tatura to produce Goat Infant Formula directly from fresh Australian milk.
- Integrated supply chain – Deloraine acquisition with improved utilisation of capacity.
- Effective cost management on fixed milk price.
- Optimise Australia and NZ milk pool allocation.
- Greater portion of high margin products – Infant Formula.
- Consistent trade spending / gross revenue ratio.
- Deliberate deletion of loss-making fresh dairy products.

CAPITAL MANAGEMENT



With a strong balance sheet and cash position we retain the flexibility to execute our growth strategy.



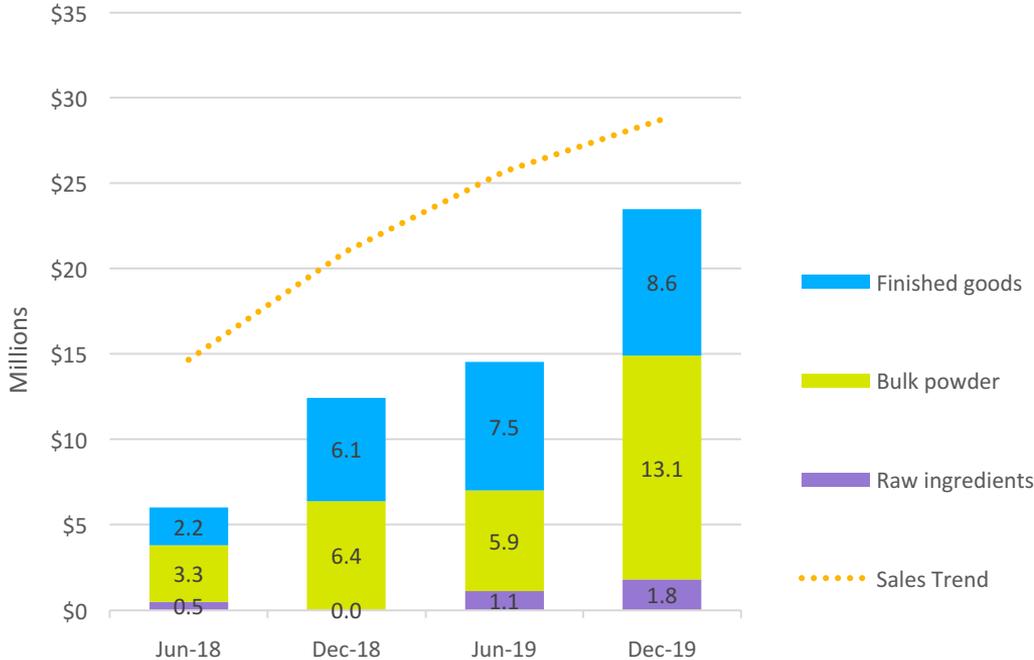
Key Drivers

- Working capital movements include the steps taken to improve supply chain flexibility to meet stronger sales demand in 2H FY20.
- Increased trade and receivables position from strong Q2 sales also contributed to working capital movements.

GROUP INVENTORIES



Fully transitioned to new products and ready to meet stronger demand of existing products.



Key Drivers

- Inventory growth trend to meet strong forecasted demand of existing product portfolio in 2H FY20.
- To ensure a smooth change over for refreshed CapriLac® products and improve channel economics.
- Support imminent expansion of Bubs® Organic Grass-fed Infant Formula in Woolworths and China CBEC platforms.
- Fulfil opening orders for Deloraine® product extensions and Junior Nutrition products.
- Natural seasonality of milk supply - shoulder pattern of fresh milk supply peaks in November.
- Ingredients increased with shift to direct sourcing model since Deloraine acquisition.

02

BUSINESS UPDATE



INVESTMENT HIGHLIGHTS

Core investment proposition.



- Sustainable market leadership position in vertical supply chain with exclusive access to Australia's largest goat milk pool.
- Bubs® is an established specialist super-premium formula brand with authentic provenance and a true founder-led story.
- Established presence in high growth export markets underpinned by foundational partnerships with leading local retailers.
- Agile culture and product development capability enabling the Company to realise highest and best use of goat milk supply.
- Scalable business model and best in class infrastructure, providing operating leverage as business grows.

GROWTH ENGINES

Key 1H20 Highlights



1. LEAD IN VERTICAL SUPPLY CHAIN VALUE CREATION.

- + Continual review and evaluation of potential new partners to ensure highest and best use for efficiencies in goat milk supply.
- + Worked with leaders in goat dairy industry to develop standardised process, management and quality control systems to promote best in class practices and quality supply.

2. BUILD BRAND CONNECTION TO DRIVE SCALE.

- + Supported launch of Organic bovine formula to expand Bubs® brand into the remaining 95% of the non-goat milk based infant milk category.
- + Developed and invested in data driven, targeted consumer connections in China to support brand building.
- + Supported continued build of Bubs® brand across domestic retail market.

3. EXPAND INTO NEW GROWTH AREAS.

- + Developed new Bubs® Junior Nutrition formulations for 3-12 year olds.
- + Developed CapriLac® new format and marketing content for brand refresh.
- + Developed Deloraine® range extension and supporting marketing assets.
- + Developed APAC market expansion with new distribution partners.

BUBS AUSTRALIA ROADMAP



KEY COMPETITIVE ADVANTAGE

EXCLUSIVE GOAT MILK SUPPLY



Infant Formula + Fresh Milk products Adult Milk Powder products

Approx. 23,000 herd producing >20m Lt fresh milk that is converted to 1,750MT powder, estimated to be circa. 7.5%¹ of the global supply.



SECURE MANUFACTURING



TATURA
A BEGA CHEESE COMPANY

One-step processing secure supply agreement for goat milk nutritional powder conversion.

Deloraine

100% ownership of CNCA canning facility.
Capacity: 10 million tins per annum.

Current Factory Utilisation²: ~30%



Secure access to organic cow milk.



²Based on 24hrs / 5 days pw shifts.

DIFFERENTIATED DAIRY PRODUCTS



³China Cross-border eCommerce
⁴China physical retail

DIVERSIFIED MARKETS



Strong market coverage in Top 4 Baby Formula retailers.



Significant strategic partnerships in CBEC and General Trade.



TVV Distribution Agreement + 135 BiboMart stores.



WeMe Distribution Agreement.

¹Sources: Beth A Miller and Christopher P Lu, "Current Status of global dairy goat production: an overview", Asian- Australasian Journal of Animal Sciences, 2019, Euromonitor, Expert Interviews.

03

PRODUCT & BRAND UPDATE



BRAND PORTFOLIO EXPANSION



Bubs® Junior range and expansion of the Adult Goat Dairy portfolio will mean our product offerings will cater for all stages of development, feeding occasions and dietary requirements, from infants to children, through to younger adults and seniors.

Organic Baby Food, Cereals & Toddler Snacks



Organic toddler snacks to extend the consumer lifecycle beyond 1,000 days.

Complete range of premium organic baby food and cereal products.



Infant Milk Formula



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

Australia's first Organic 365 days Grass Fed Formula with Pre and Probiotics.



Adult Goat Dairy Products



Australia's leading adult goat milk brand.

Science-based formulations for specific health needs.



NEW PRODUCT INNOVATION



1H FY20 investment in new product development will convert to revenue realisation in Q420.



Bubs® Junior Nutrition range to launch in Australian retailers and China CBEC, and CCIC approved China label product with Lactoferrin to launch into Mother and Baby stores (3yr+ does not require SAMR registration).



CapriLac® brand refresh.



Deloraine® Range Extensions, certified for China General Trade.

STRENGTHENING GOAT DAIRY PORTFOLIO



Clear adult brand portfolio strategy for CapriLac® re-launch and Deloraine® brand expansion to support forward outlook for demand growth of goat dairy sector in China.

REINVIGORATION OF OUR ADULT GOAT MILK DAIRY PORTFOLIO STRATEGY

Category Growth Driver and specific usage occasion:

Cow Milk Dairy Alternative for Everyday Goodness

Health & Wellness Nutritional Support for specific needs.

Bubs Adult Goat Dairy Brand:



Brand Proposition:

An Easier to Digest, everyday alternative to Cow's Milk.

Progressive, modern and science-based formulations for specific health & wellness.

Product Portfolio:



Distribution Channel:

Domestic Retail +CBEC

Alibaba CIP CBEC+General Trade

National Health Commission of PRC announced the "Nutrition Intake Guideline of Preventing and Treatment of Coronavirus" -- 300g of Dairy per day is recommended.



INVIGORATING CAPRILAC® BRAND



Preparing new marketing communication and packaging design to support CapriLac® brand refresh.

New Brand Marketing support

New Digital Content Assets

New Pack Design



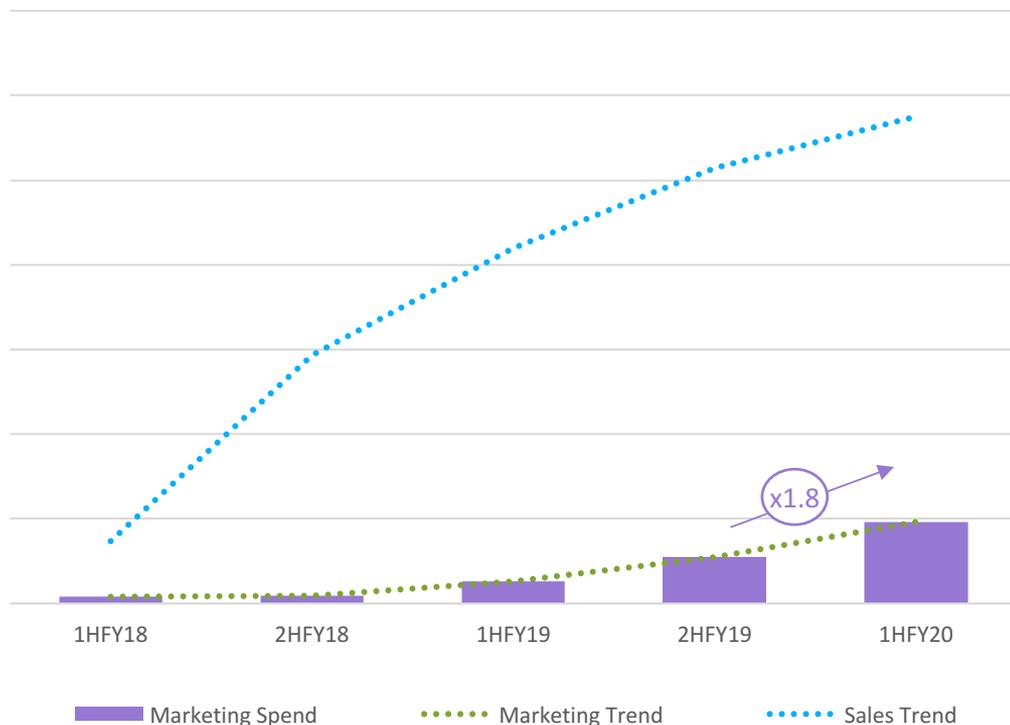
CapriLac® Brand Refresh

- Superior product with improved freshness and taste.
- Improved quality controls with in-house production.
- Developed revised marketing brand assets and new communication plan in readiness for CapriLac® refresh.
- Developed revised product messaging and packaging redesign for planned production in 2H F20 as reflected in inventory readiness.

MARKETING INVESTMENTS



As an emerging brand in China, continued strengthening of marketing investment is an important strategic investment necessary to build long term sustainable consumer connection and brand growth.



Key Drivers

- As an emerging brand in China, continued investment in brand building is necessary to sustain brand traction towards profitable growth in the medium to long term.
- Based on historic trends, 1H upfront investment in China marketing is likely to deliver sales conversion results within a 6-9 month window.
- Support brand growth through data-driven targeted activity along consumer journey via content creation to drive higher visibility and trial of Bubs® products.
- Leveraging Chinese Key Opinion Leaders, social influencers and Taobao store owners to amplify reach in WeChat, Weibo, TikTok, and Little Red Book.

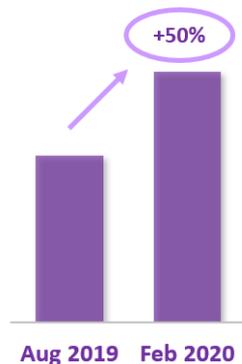
INVESTING IN BRAND GROWTH



Significant increase in China marketing activities in 1H FY20 to support brand equity and build awareness.

SIGNIFICANT BOOST IN WECHAT INDEX

WeChat mentions increased 50%, due to awareness boost led by significant step change in marketing investment. This is a strong indicator of brand growth.



WORD-OF-MOUTH AND SOCIAL GROWING

Reaching Chinese consumers through social matrix with quality content with high impact.



DEEPENING BRAND CONNECTION



Harnessing the power of top Mother & Baby Social Influencers to engage with Chinese millennial parents.

Nico Mama
30M+ followers

bubs Organic
ACO&NASAA双重有机认证
澳洲首款有机草饲牛奶粉
365天自然放牧 无污染最天然

@年糕妈妈
全网3000万爸妈
关注的超级母婴专家

Xiaoxiaobao Mama
8M+ followers

小小包麻麻
中国最会买的时尚辣妈
近千万粉丝的母婴界第一网红

新手妈妈的头等大事
让宝宝吃得安全又健康

母婴界第一网红认可的宝藏品牌

Dingxiang Mama
TOP Professional Platform

·丁香妈妈,为学习型妈妈服务·

李靓莉 丁香妈妈作者
—
注册营养师
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bubs Growing Generation Joy

04

REGIONAL & CHANNEL UPDATE



NATIONAL RANGING IN WOOLWORTHS



Major new supply agreement with Woolworths set to double retail exposure for Bubs® Infant Formula portfolio in the largest and fastest growing super-premium segment of Australia's infant formula market.



Increase to 400 stores

New ranging 100 stores

NEW



NEW

New Ranging 700 stores

New ranging 100 stores



Woolworths 2H20 Expansion

- A key strategic partnership supporting Woolworths as the largest Infant Formula retailer in Australia.
- Entering the growing super-premium category with Organic Cow and Goat Milk offering.
- Developing trade marketing support and brand support in readiness for Woolworths rollout.

INVESTING IN RETAILER SUCCESS



Continuing to support our key retailer strategic partnership with Chemist Warehouse.

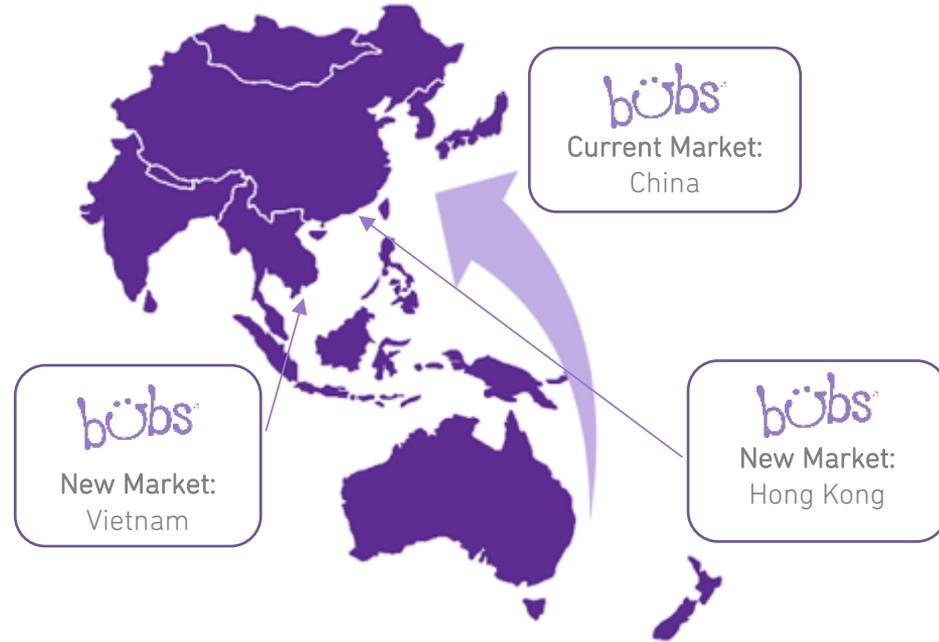


Chemist Warehouse

- ➔ All of Bubs® 28 products stocked across 450 Chemist Warehouse stores nationally in 1H FY20.
- ➔ Continuing to support with strong merchandising activity providing category shelf domination.
- ➔ Investing in heavy promotional campaigns supported with multi-media marketing activity throughout FY20.
- ➔ Scan data in key product lines exceeding sales targets.
- ➔ Marketing activity to support the launch of Bubs® Organic Grass Fed Infant Formula from December 2019.

SE ASIA EXPANSION

Developing marketing assets and brand support for our key new export markets.



Vietnam & Hong Kong Market Expansion

- Providing brand and marketing support for Master Distribution Agreement with Viet Nam TVV Service (TVV), one of the largest Vietnamese distributors in the infant nutrition industry, distributing to an extensive network of >20,000 retail outlets.
- Supporting ongoing secure ranging in 135 BiboMart stores, the largest Mother & Baby retail chain in Vietnam.
- Developed marketing support for Hong Kong market, an important jurisdiction and stepping-stone towards projecting the Bubs brand to Asia.
- Continuing to explore and develop market entry strategies for other opportunities in SE Asia.

Additional Markets: Continuing to explore opportunities to launch on Alibaba eCommerce platforms in SE Asia: Lazada and RedMart

05

STRATEGIC OUTLOOK



STRATEGIC OUTLOOK



Pursuit of strategic goals towards delivering profitable and scalable sustainable growth.

- Continued benefit from key competitive advantages:
 - Exclusive goat milk supply
 - Advanced and secure manufacturing capability
 - Differentiated products across infant, junior and adult nutrition
 - Geographic diversification: Australia, China and expansion into Vietnam and Hong Kong

- Segment and regional sales growth expected to continue in the second-half.

- New Woolworths agreement provides leading platform to gain market share in larger organic bovine formula segment.

- Product innovation extensions in goat dairy to drive future sales growth.

- Further development of Bubs® penetration into APAC to diversify revenue streams.

- Continued focus on operational and capital management and improving profit margins.

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