



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

1800 2827 2878 (1800 BUBS AUST)
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BUBS® INFANT FORMULA DRIVES DOMESTIC AND CHINA SALES GROWTH FOR FIRST HALF RECORD FINANCIAL RESULTS

Melbourne, 26 February 2020: Releasing the Bubs Australia (ASX: **BUB**) Activities Report and auditor reviewed financial results for the six months ended 31 December 2019, Founder and CEO, Kristy Carr said: “The half-year has seen a solid growth trajectory with gross revenue¹ of \$28.75 million, up 37 percent on the same period last year. Bubs® Infant Formula was the key driver of growth with attributable gross revenues up 77 percent compared to the prior corresponding period (pcp). Revenue of adult goat milk powder have also increased 30 percent over the same period.

“As we build scale and optimise supplier processes through our vertically integrated business model, gross margins² have been steadily increasing to 24% across the group. Bubs® Infant Formula has delivered the most material improvement at 41% gross profit margin, compared to 28% in June 2018.

“During the period, the Company made significant increased investments in developing channel capacity and increased marketing to support our stronger domestic distribution presence and deepen Bubs® brand engagement with Chinese consumers to drive sales across all retail channels. In addition, we invested in the launch of Bubs® products into Vietnam and in the development of new products across multiple segments that will be launched in the second half of FY20. While sales momentum continued to be strong, these investment activities to drive future accelerated growth led to a normalised EBITDA loss of \$3.74 million, largely in line with the \$3.56 million loss over the same period last year.

“Building on the growth momentum in our domestic business, which accounts for 74 percent of total gross revenue, the new agreement with Woolworths is set to double retail exposure for the complete portfolio of Bubs® Infant Formula, including eight product lines to be sold in up to 700 stores by May 2020.

“Direct sales to China were also up 19% during the first half and now account for 19% of total group revenue. We are particularly pleased to see infant formula sales to China have nearly doubled (up 99%) during this comparable period.

“With a robust balance sheet of \$39.1 million in cash reserves and strong inventory position to fulfil future demand, the Company is well placed to continue to grow topline revenues in the second half. The Company remains focused on pursuing our strategic goals towards delivering profitable and scalable sustainable growth, and becoming a leading specialist brand in the super-premium infant formula market in Australia and China,” Mrs. Carr said.

¹ Gross revenue is defined as revenue excluding trade spending. Net revenue is defined as revenue with trade spending.

² Gross margin is calculated as (net revenue – cost of sales) / net revenue x 100. Cost of sales excludes the balance of inventories write down and net realisable value adjustments.



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1H 2020 FINANCIAL HIGHLIGHTS

Bubs continues to deliver consistent growth momentum, resulting in record sales for the half year.

TOTAL GROUP REVENUE

- Gross revenue³ of \$28.8 million, up 37% on 1H 2019 (\$21.0 million).
- Net revenue³ of \$27.1 million, up 39% on 1H 2019 (\$19.5 million).

SALES BY CATEGORY

- Sales of Bubs® branded products grew 67% on same period last year and now makes up 53% of total group gross revenue:
 - Infant Formula up 77% pcp, representing 45% of 1H group gross revenue
 - Organic Baby Food up 23% pcp, representing 8% of 1H group gross revenue
- Sales generated from goat milk powder (non-infant) grew 30% on same period last year, representing 38% of 1H group gross revenue.
- Sales of fresh milk products were down 49%, following the deliberate deletion of yoghurt products due to poor profitability and disposal of non-core Coach House Dairy®, now representing only 6% of 1H group gross revenue, versus 17% in 1H FY19.
- Other sales (principally Deloraine contract manufacturing for external parties) represented 3% of 1H group gross revenue.

SALES BY REGION

- Sales generated in Australia were up 30% pcp, representing 74% of 1H group gross revenue. This growth was driven by the expansion of 30 products into Chemist Warehouse and increasing consumer demand for Bubs® infant formula in the Daigou Channel.
- China direct sales were up 19% pcp, representing 19% of 1H group gross revenue.
 - Direct sales of Infant Formula to China nearly doubled (up 99%) pcp.
- Revenue generated from international markets (excluding China) increased 12-fold (up 1108%) pcp, representing 7% of 1H group gross revenue.

GROSS MARGIN IMPROVEMENT

- Gross margin⁴ of 24% for the group, up from 19% over the same period last year.
 - Infant Formula delivered the most material improvement with 41% at 31 December 2019, up from 38% at 30 June 2019 and 28% at 30 June 2018.

³ Gross revenue is defined as revenue excluding trade spending. Net revenue is defined as revenue with trade spending.

⁴ Gross margin is calculated as (net revenue – cost of sales) / net revenue x 100. Cost of sales excludes the balance of inventories write down and net realisable value adjustments disclosed in note 5.



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In addition to building channel capacity, the Company continued to invest in the growth of high margin products, primarily infant formula, as well as optimise product and channel mix, engage new supplier and retail partners, integrate the Deloraine Dairy acquisition, and exit non-profitable, non-core fresh dairy products. This has been reflected in the strengthening of gross margin to 24 percent across the group, an improvement of 5 basis points from some 12 months ago.

The Company took steps to review its approach to optimising its milk pool utilisation and the marketing of adult goat milk powder products. The refreshed Caprilac® brand with an improved product offering will be produced in-house in the Deloraine manufacturing facility, together with a new range of Deloraine® branded specialty adult formulations in partnership with Alibaba's Centralised Import Procurement (CIP) division. While this transition impacted the phasing of CapriLac® sales in the second quarter, the Company is confident that the enhanced portfolio will be well received by the core consumer base and the new products will cater to new segments, such as the needs of China's ageing population. Importantly, the Company continue to have a well-balanced portfolio, with Bubs® infant nutrition and non-infant goat dairy (powder and fresh) revenue streams split 53 percent and 44 percent of the half year gross revenue respectively.

Domestic sales momentum for Bubs® infant nutrition continued strongly along with margin improvement, however investment activities in developing channel capacity, increased marketing activity and investment in new product development led to a normalised EBITDA loss of \$3.74 million.

The overall statutory EBITDA loss of \$5.25 million compares to a loss of \$8.52 million in the prior corresponding period, and incorporates expenses that are non-cash or outside of the normal operations of the company, including transaction expenses and finance costs relating to ongoing M&A transactions from FY19, share based payments for options issued in FY20, and discontinued inventory.

Distribution costs as a proportion of net revenue remained consistent with prior periods at 3%, while marketing expenses increased to 18% of net revenue (versus 7% in 1H19) reflecting stronger sales intensity for Bubs® Infant Formula, particularly with our Chinese consumers.

Although the Company continued to invest in people talent as the company built capability in core markets, employee costs⁵ increased by considerably less than sales growth and represented 11% of net revenue, which is consistent with same period last year as scale benefits arise. Administration costs⁶ decreased 40% as the business grew, representing only 6% of net revenue compared to 15% of net revenue for the same period last year.

⁵ Employee costs do not include share-based payments and employee benefit expense of Nulac acquisition.

⁶ Administration costs do not include depreciation and amortisation.



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STRONG DOMESTIC PERFORMANCE

Throughout the first half, Bubs® products continued to be ranged in all leading retailers, including Coles, Woolworths, Big W and Chemist Warehouse, and enjoyed a 69 percent increase in sales compared to the same period last year.

Subsequent to balance date, the Company announced a major new supply agreement with Woolworths that is set to double retail exposure for the Bubs® Infant Formula portfolio. This new updated agreement reinforces the confidence Woolworths has in the Bubs® brand, by now offering the entire range of eight infant formula products across its national store network.

Looking ahead, Mrs Carr said: "Under the new agreement with Woolworths, all three stages of Bubs® Goat Milk Infant Formula store representation will increase more than threefold to 400 stores. The Bubs Organic® 365 days Grass Fed Infant Formula range, already in 300 stores in the pharmacy channel, will now be ranged in 700 Woolworths supermarkets, guaranteeing Bubs an even stronger foothold on the Australian retail sector. At the same time Bubs® new Junior Nutrition range will be sold in 100 premium Woolworths stores."

CONTINUED GROWTH IN CHINA AND SOUTH EAST ASIA

A key marketing development in the half-year was transitioning our China direct business to our key partners, namely the Beingmate Joint Venture and CIP (Alibaba Tmall) in the Cross-Border eCommerce Channel.

As a result, direct sales into China increased by 19 percent, with a doubling of infant formula sales. China direct sales now represent some 19 percent of group gross revenue. The Company expect further growth momentum and gross margin improvement from China sales in the second half.

The focus and investment on Corporate Daigou marketing, has delivered month-on-month growth in outbound sales destined for China, with 1H sales to Corporate Daigou up some 52 percent over the same period last year.

The new Goat Junior Nutrition product formulated for 3-12 year olds can be sold direct to Mother and Baby Stores in China, and the compliant Deloraine® adult goat milk powder products can also be imported directly and sold in physical retail outlets in China, opening up the general trade channel to dairy lines for the first time.

In the latter part of the second quarter, the Company established new distribution partnerships for Bubs® products in Vietnam (Vietnam TVV Services) and Hong Kong (WeMe eCommerce Solutions) and these are expected to contribute further growth in the second-half of FY20.



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MANUFACTURING CAPABILITY AND SUPPLY CHAIN SECURITY

Bubs holds a sustainable market leadership position in vertical supply chain with exclusive access to Australia's largest goat milk pool. This places the Bubs® brand in the unique position of being the world's only producer of goat infant formula made from Australian goat milk, further strengthening the premium provenance story with traceability back to farm gate.

The company continues to explore opportunities to develop its supply chain and refine its manufacturing capability, specifically in relation to infant formula and key dairy ingredients.

GROUP INVENTORIES

The increased manufacturing and operating costs in the first-half reflect the group inventory position increasing by some \$3.3 million in infant formula base powder inventory in Q2 FY20. This inventory growth trend is consistent with the increasing sales forecast to meet the strong demand of existing product lines in 2H FY20, particularly in relation to forecasted Daigou sales to fulfil stock build ahead of an earlier than usual Chinese New Year period. In addition, the inventory build was required to prepare for the expansion of Bubs® Goat formula and the national roll-out of Bubs Organic® formula in Woolworths supermarkets, as well as fulfilling opening orders for Junior Nutrition products for the Australian and Chinese general trade label products. The group inventories also reflect the natural peak milking season and the conversion of fresh milk to bulk powder in preparation for the CapriLac® refresh.

NOVEL CORONAVIRUS (COVID-19) IMPACT

Whilst it is too early to quantify any future impact, to date Bubs Australia has seen no diminution of demand and minimal disruption to the business due to the Coronavirus outbreak. The Company has monitored its operations and the market closely, and makes the following observations:

- Infant formula is perceived as an essential pantry item as it is a key food source for babies. As a trusted premium international brand with transparent supply chain visibility, Bubs® is well placed to appease Chinese parents' heightened focus on food security and their children's health and immunity.
- As routine shopping becomes challenging, long-life dairy powder is becoming an important nutrition source and pantry item, reinforced by the Chinese government statement issued on 8 February 2020 regarding the 'Nutrition Intake Guideline of Prevention and Treatment of Coronavirus,' recommending consuming 300g of dairy per day.
- The overall disruption to logistics of delivering finished goods to end consumers remains challenging, particularly in relation to international flights and last-mile deliveries between provinces.
- Although some retail channels normally fuelled by Chinese tourists and students have been impeded, from mid-February there has been increased purchase activity for Bubs® products in the Corporate Daigou Channel that is the combination of new consumers as well as existing consumers wanting to secure food supply given the uncertainty to date.
- Bubs proudly sources goat milk and packaging materials for infant formula and adult dairy products from Australia/NZ. The Company's supply chain for manufacturing has therefore not been impacted.



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BALANCE SHEET

Bubs Australia continues to maintain a robust balance sheet with \$39.1 million in cash reserves as at 31 December 2019.

CORPORATE DEVELOPMENTS

- Inclusion in the ASX300 index as part of the S&P's quarterly rebalance on 23 Sept 2019.
- Appointment of Dennis Lin to Executive Chairman (previously Non-Executive Director).
- Relocation of Headquarters to Melbourne, Victoria - closer to farmers, producers and key customers.

OUTLOOK

Executive Chairman, Dennis Lin said: "The Company is pleased with the strong sales growth momentum across its core product segments in the regions in which it operates, and expects this trajectory to continue in the second-half. The additional domestic growth driven by the new Woolworths agreement provides the ideal platform to actively attain share in the organic bovine milk formula sector, whilst also driving the underlying growth of our core goat milk range. Product extensions utilising our key goat dairy ingredient will also drive future sales growth.

"In addition, prospects for further development of Bubs penetration into Vietnam and Hong Kong provides a broader regional framework for additional revenue streams in the second-half, without impacting our overall operating efficiencies.

"Whilst the Company has a strong balance sheet, management continue to focus on operational and capital management, as well as further improving gross margins, and are acutely focused on Bubs becoming a profit-making business for its shareholders," Mr Lin said.

The Appendix 4D Half Year Report and Interim Report are attached. All Company information and financial reports are available on Bubs Australia Investor Resource Centre: investor.bubsaustralia.com



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Reconciliation of non-IFRS measures

	1H FY20	1H FY19
	\$M	\$M
Loss before tax	-7.70	-8.83
Interest income	0.14	0.27
Finance cost	-0.71	-0.37
Depreciation and amortisation	-1.88	-0.21
EBITDA	-5.25	-8.52
Share of net profits of joint ventures accounted for using the equity method	-0.04	0.09
Inventories written off (Discontinued products)	-0.33	-0.29
Share based payments	-0.97	-0.29
Employee benefit expense – Nulac acquisition	-	-4.46
Corporate transaction accounting and legal expense	-0.17	-
Normalised EBITDA	-3.74	-3.56

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 super-premium infant nutrition products. Bubs® goat milk and Bubs 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 through to childhood.

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: bubsaustralia.com

Investor Centre: investor.bubsaustralia.com

Appendix 4D

Half year report

Name of entity

Bubs Australia Limited

ABN	Half yearly (tick)	Preliminary final (tick)
63 060 094 742	✓	

The information disclosed in the Appendix 4D should be read in conjunction with the most recent annual financial report

1. Details of reporting period

Current reporting period	31 December 2019
Previous corresponding period	31 December 2018

2. Results for announcement to the market

					31 December 2018		31 December 2019
2.1	Total Revenue	up	39%	from	\$19,539,287	to	\$27,098,050
2.2	Loss after income tax benefit	down	14%	from	(\$8,826,965)	to	(\$7,557,846)
2.3	Loss after income tax benefit attributable to the members of Bubs Australia Limited	down	14%	from	(\$8,826,965)	to	(\$7,558,508)

2.4	Dividends (distributions)	Amount per security	Franked amount per security
Current period:			
Interim dividend for the half year ended 31 December 2018		-	-
Final dividend for the year ended 30 June 2018		-	-
Previous corresponding period:			
Interim dividend for the half year ended 31 December 2017		-	-
Final dividend for the year ended 30 June 2017		-	-
2.5	Record date for determining entitlements to the dividend:	Refer section 5.0	

2.6	Brief explanation of any of the figures reported above and commentary on the results for the period: Refer to the directors' report – Operating and financial review on page 4 of the Interim Report for the half year ended 31 December 2019.
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3. Net tangible assets per security

	30 June 2019 Cents	31 Dec 2019 cents
Net tangible asset backing per ordinary security	2.72	7.69

4. Control gained or lost over entities during the period

No control gained or lost during the period

5. Details of dividends / distributions

Current period

No interim dividend was declared for the half year ended 31 December 2019.

For the year ended 30 June 2019, no final dividend was declared.

Previous corresponding period

No interim dividend was declared for the half year ended 31 December 2018.

For the year ended 30 June 2018, no final dividend was declared.

6. Details of dividend / distribution reinvestment plan

Not applicable.

7. Details of associates and joint venture entities

As at 31 December 2019, the Company has the following joint venture entities:

- 49% of the issued shares in Bubs Brand Management Shanghai Co. Ltd

8. Accounting standards used by foreign entities

Not applicable.

9. Qualification of audit / review

- | | |
|---|---|
| <input type="checkbox"/> The accounts have been audited. | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have not yet been audited or reviewed. |

10. Attachments

Details of attachments (if any):

The interim report of Bubs Australia Limited for the half year ended 31 December 2019 is attached.

11. Signed

A handwritten signature in black ink, appearing to read 'Dennis Lin', is positioned above the printed name and title.

Dennis Lin
Executive Chairman

26 February 2020

Bubs Australia Limited and Controlled Entities
ACN 060 094 742

Interim Report – 31 December 2019

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Bubs Australia Limited and Controlled Entities
Corporate Directory
31 December 2019

Current Directors

Dennis Lin
Kristy-Lee Newland Carr
Matthew Reynolds
Steve Lin

Executive Chairman
Executive Director
Non-executive Director
Non-executive Director

Company Secretary

Jay Stephenson

Registered Office and Domicile

Bubs Australia Limited is a company limited by shares, incorporated and domiciled in Australia.
Its registered office is:
23-29 Nina Link Dandenong South
Melbourne VIC 3175

Share Registry

Computershare Investor Services Pty Limited
Level 2
Reserve Bank Building
45 St George's Terrace
Perth WA 6000

Auditors

Deloitte
550 Bourke Street
Melbourne VIC 3000

Australian Stock Exchange

ASX Code: BUB

Bubs Australia Limited and Controlled Entities

Directors report

31 December 2019

Directors

The names of directors of Bubs Australia Limited and the entities it controlled ('the Group') in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Dennis Lin
Kristy-Lee Newland Carr
Matthew Reynolds
Steve Lin

Operating and financial review

Financial performance

The Group achieved revenue of \$27,098,050 (2018: \$19,539,287) and a loss after income tax of \$7,557,846 (2018: \$8,826,965). The overall position includes certain transactions that are non-cash or outside of the normal operations of the Group:

- corporate transaction expenses of \$171,007 (2018: \$6,068) associated with ongoing M&A activities from FY19;
- \$974,267 share based payment expense (2018: \$288,288) relating to options issued during the period;
- \$498,208 (2018: \$295,048) movement of deferred consideration relating to the Deloraine acquisition; and
- \$329,842 (2018: Nil) inventories written off relating to discontinued products.

The operating loss reflects the fact the business is still in a strong growth phase including the investment in marketing activities to promote brand awareness, advance new product development under our core infant portfolio and brand extensions in the non-infant goat dairy sector.

Revenue and profitability

At an operating level, sales increased 39% compared to the six months ended 31 December 2018 with the strongest growth coming from Bubs goat milk infant formula, 78% increase compared to prior period. Domestic sales account for 72% of net revenue, with 20% of revenue generated from China cross border e-commerce sales, and the remaining 8% from other international markets.

Domestic sales increased 32% compared to the six months ended 31 December 2018 which is driven by Bubs' strong domestic presence and significant contribution from Corporate Daigou distribution channel, along with the marketing initiatives the Group has undertaken.

China sales increased 19% compared to the six months ended 31 December 2018 which represents the strong traction the Bubs product range continues to gain in the Chinese market following the deployment of marketing resources and sales channel contract wins in cross border e-commerce distribution channel and China Mother and Baby stores distribution channel.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2019

Gross margin¹ has improved 24% to 24% compared to the six months ended 31 December 2018 due to the optimisation in product and channel mix, engaging new suppliers, Deloraine Dairy acquisition and deletion of non-profitable fresh dairy products.

Financial position

The Group currently hold \$39,130,489 in cash and cash equivalents at 31 December 2019 (30 June 2019: \$23,291,058) and \$23,559,254 inventories (30 June 2019: \$14,552,400). The increased inventory position represents the upfront investments in milk supplies and production to meet the increased sales demand of existing product portfolio and new products launch in the second half of the financial year.

The Group has increased the finance trade facility limit from \$2,000,000 to \$5,000,000. As at 31 December 2019, \$2,000,000 (30 June 2019: \$2,000,000) was withdrawn. The directors are confident of the Group's ability to continue as a going concern and meet its debts and future commitments as and when they fall due and payable.

Subsequent events

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or could significantly affect the reported results from operations or financial position for the period then ended.

Rounding

The financial report is presented in Australian dollars and all values in this report and the interim finance report are to the nearest dollar unless otherwise stated under the option available to the Group under ASIC Corporations Instrument 2016/191.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 9 and forms part of this report.

This report is made in accordance with a resolution of the directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

¹ Gross margin is calculated as (revenue – cost of sales) / revenue x 100. Cost of sales excludes the balance of inventories write down and net realisable value adjustments disclosed in note 5.

Bubs Australia Limited and Controlled Entities
Directors report
31 December 2019

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Dennis Lin', with a stylized flourish at the end.

Dennis Lin
Executive Chairman

Sydney

Dated: 26 February 2020

Independent Auditor's Review Report to the Members of Bubs Australia Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Bubs Australia Limited which comprises the Interim Consolidated Statement of Profit and Loss and Other Comprehensive Income; the Interim Consolidated Statement of Financial Position; the Interim Consolidated Statement of Changes in Equity; and the Interim Consolidated Statement of Cash Flows for the year then ended date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Bubs Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Bubs Australia Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Bubs Australia Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



Lian (Andrew) Sun
Partner
Chartered Accountants
Melbourne, 26 February 2020

26 February 2020

The Board of Directors
Bubs Australia Limited
23-29 Nina Link
DANDENONG SOUTH VIC 3175

Dear Board Members

Bubs Australia Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Bubs Australia Limited.

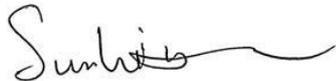
As lead audit partner for the review of the financial statements of Bubs Australia Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Lian (Andrew) Sun
Partner
Chartered Accountants

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Profit and Loss and Other Comprehensive
Income
For the six months ended 31 December

	Note	2019 \$	2018 \$
Revenue	3	27,098,050	19,539,287
Cost of sales	5	(21,010,594)	(16,426,409)
Other Income		6,570	28,273
Share of net profits of associates / joint ventures accounted for using the equity method		(38,548)	90,512
Distribution and selling costs		(789,555)	(679,345)
Employee costs	5	(3,822,582)	(6,894,217)
Marketing and promotion costs		(4,813,611)	(1,305,535)
Administrative and other costs	5	(3,592,496)	(3,074,072)
Other expenses	5	(171,007)	(6,068)
Interest income		139,973	266,163
Finance cost	5	(708,778)	(365,554)
Loss before tax		(7,702,578)	(8,826,965)
Income tax benefit		144,732	-
Loss for the year after tax		(7,557,846)	(8,826,965)
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods (net of tax)			
Exchange difference on translation of foreign operations		(662)	-
Other comprehensive income, net of tax		(662)	-
Total comprehensive loss for the year		(7,558,508)	(8,826,965)
Loss per share			
Basic (loss) per share (dollars)	6	(0.01)	(0.02)
Diluted (loss) per share (dollars)	6	(0.01)	(0.02)

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Financial Position

	Note	31/12/2019 \$	30/06/2019 \$
Assets			
Current Assets			
Cash and cash equivalents		39,130,489	23,291,058
Trade and other receivables	7	21,438,554	15,552,802
Other assets		1,676,185	1,636,563
GST receivable	13	556,048	1,946,169
Inventories	8	23,559,254	14,552,400
Total Current Assets		86,360,530	56,978,992
Non-Current Assets			
GST receivable	13	632,155	593,477
Plant and equipment		4,119,860	4,213,775
Right of use assets	10	2,291,935	-
Intangible assets		90,147,612	91,782,992
Investment in associates		991,923	1,030,470
Total Non-Current Assets		98,183,485	97,620,714
Total Assets		184,544,015	154,599,706
Liabilities			
Current Liabilities			
Trade and other payables		11,521,811	8,931,497
Contract liabilities		1,020,249	926,382
Lease liabilities	11	403,626	-
Borrowings		2,000,000	2,000,000
Provisions		1,316,946	2,357,410
Share based payment liability	13	556,048	1,946,169
Employee benefit liability - Nulac acquisition		6,700,000	6,700,000
Consideration payable		-	238,095
Deferred consideration payables		5,000,000	5,000,000
Total Current Liabilities		28,518,680	28,099,553
Non-Current Liabilities			
Lease liabilities	11	2,382,041	-
Provisions		134,624	553,949
Share based payment liability	13	632,155	593,477
Deferred consideration payables		7,845,270	7,347,062
Deferred tax liabilities		11,790,464	12,354,026
Total Non-Current Liabilities		22,784,554	20,848,514
Total Liabilities		51,303,234	48,948,067
Net Assets		133,240,781	105,651,639

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

	Note	31/12/2019	30/06/2019
		\$	\$
Equity			
Issued capital	12	236,965,360	189,059,150
Share based payments reserve	13	12,120,363	24,878,923
Foreign currency translation reserve		1,305	1,967
Accumulated losses		(115,846,247)	(108,288,401)
Total Equity		133,240,781	105,651,639

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Changes in Equity

	Issued Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2019	189,059,150	24,878,923	1,967	(108,288,401)	105,651,639
Comprehensive income					
Loss for the period	-	-	-	(7,557,846)	(7,557,846)
Other comprehensive income	-	-	(662)	-	(662)
Total comprehensive income	-	-	(662)	(7,557,846)	(7,558,508)
Transactions with owners in their capacity as owners:					
Issue of shares	48,732,827	-	-	-	48,732,827
Exercise of options	150,655	-	-	-	150,655
Capital raising costs, net of tax	(977,272)	-	-	-	(977,272)
Share based payment expense	-	974,267	-	-	974,267
Share based payment expense – Corporate transaction	-	(13,732,827)	-	-	(13,732,827)
Balance at 31 December 2019	236,965,360	12,120,363	1,305	(115,846,247)	133,240,781

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

For the six month ended 31 December 2018	Issued Capital	Share Based Payments Reserve	Retained Earnings	Total equity
	\$	\$	\$	\$
Balance at 1 July 2018	142,189,264	3,106,465	(72,779,165)	72,516,564
Comprehensive income				
Loss for the period	-	-	(8,826,965)	(8,826,965)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(8,826,965)	(8,826,965)
Transactions with owners in their capacity as owners:				
Issue of shares	1,300,000	-	-	1,300,000
Exercise of options	357,811	-	-	357,811
Share based payment expense	-	288,288	-	288,288
Balance at 31 December 2018	143,847,075	3,394,753	(81,606,130)	65,635,698

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities
Interim Consolidated Statement of Cash Flows
For the six months ended 31 December

	2019	2018
	\$	\$
Cash flows from operating activities		
Receipts from customers	25,664,010	16,499,936
Payments to suppliers and employees	(42,202,666)	(30,131,211)
Interest received	159,722	195,892
Net cash used in operating activities	<u>(16,378,934)</u>	<u>(13,435,383)</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(53,654)	(30,693)
Proceeds from disposal of property, plant and equipment	-	800
Purchases of intangible assets	(35,000)	-
Payments for interests in associates	(1,030,470)	-
Acquisition of term deposits	-	(7,000,000)
Loan to third party	-	(50,000)
Net cash (used in) / from investing activities	<u>(1,119,124)</u>	<u>(7,079,893)</u>
Cash flows from financing activities		
Interest paid	(133,064)	(70,506)
Proceeds from share issue	35,000,000	1,300,000
Exercise of options	150,655	357,811
Capital raising costs	(1,396,102)	-
Repayment of the lease liabilities	(284,000)	-
Net cash from / (used in) financing activities	<u>33,337,489</u>	<u>1,587,305</u>
Net increase in cash and cash equivalents	15,839,431	(18,927,971)
Cash and cash equivalents at the beginning of the financial year	23,291,058	38,642,902
Total cash and cash equivalents at the end of the period	<u>39,130,489</u>	<u>19,714,931</u>

The accompanying notes form part of these financial statements.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2019

1. Corporate information

The interim consolidated financial statements of Bubs Australia Limited and the entities it controlled (collectively, the Group) for the six month ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 25 February 2020. The interim consolidated financial statements are presented in Australian dollars, which is Bubs Australia Limited's function and presentational currency.

The Group is a for-profit entity that is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Group's operations and its principal activities is included in the directors' report, which is not part of the financial report.

2. Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation

The interim consolidated financial statements for the six months ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard *AASB 134: Interim Financial Reporting* and the *Corporations Act 2001*.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2019 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange listing rules and the *Corporations Act 2001*.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2019, except for the new standards which the Group adopted from 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, *AASB 16 Leases* for the first time. As required by *AASB 134 Interim Financial Reporting*, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in the 2020 financial period, but do not have a material impact on the interim consolidated financial statements of the Group.

AASB 16 Leases

AASB 16 Leases supersedes *AASB 117 Leases* and introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted.

The Group has applied *AASB 16* using the cumulative catch-up approach which requires the Group to recognise an asset at amount equal to liability at the date of initial application.

Bubs Australia Limited and Controlled Entities

Notes to the Interim Consolidated Financial Statements

For the six months ended 31 December 2019

The Group's accounting policy for Leases and impact on adoption is as follows.

Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 July 2019. AASB 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or changed on or after 1 July 2019. AASB 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Applying AASB 16, for all leases, the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments.
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.
- Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with *AASB 136 Impairment of Assets*.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets and personal computers, small items of office furniture and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by AASB 16. This expense is presented within 'Administrative and other costs' in profit or loss.

The Group has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying AASB 16:

- The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Group has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

Financial impact of initial application of AASB 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 July 2019 is 5.35%.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

The following table shows the operating lease commitments disclosed applying AASB 117 at 30 June 2019, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the statement of financial position at the date of initial application.

	\$
Operating lease commitments at 30 June 2019	3,522,540
Short-term leases and leases of low-value assets	(1,651)
Present value of the lease payments due in periods covered by extension options that are included in the lease term and not previously included in operating lease commitments	23,448
Effect of discounting the above amounts	(552,177)
<hr/>	
Lease liabilities recognised at 1 July 2019	2,992,160

The Group has recognised right-of-use assets \$2,521,038 and lease liabilities \$2,992,160 upon transition to AASB 16. The difference represents the lease incentive recognised at 30 June 2019 under AASB 117 Leases.

3. Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Type of goods and services	2019	2018
	\$	\$
Sale of Infant Formula	12,027,363	6,773,995
Sale of Baby Organic Food	1,680,254	1,393,350
Sale of Adult Powder	10,600,318	8,134,831
Sale of Fresh Dairy Products	1,774,856	3,237,111
Canning services	1,015,259	-
Total revenue from contracts with customers	27,098,050	19,539,287

4. Segment information

The Group had identified a single operating segment being the sale of nutritional food, fresh products, adult powder and providing canning services of nutritional dairy products. Accordingly, the financial information presented in the interim consolidated statement of profit or loss and other comprehensive income and interim consolidated statement of financial position was the same as that presented to the chief operating decision maker.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

Geographic information

	31/12/2019	31/12/2018
	\$	\$
Revenue (by region)		
Australia	19,594,590	14,817,497
China	5,436,097	4,550,706
Other International	2,067,363	171,084
Total	27,098,050	19,539,287

The revenue information above is based on the locations of the customers.

The Group had one external customer who generated greater than 10 percent of the Group's revenue. For the period ended 31 December 2019, the revenue for this customer was \$10,277,245 (2018: \$13,799,148) respectively.

5. Expenses

	2019	2018
	\$	\$
Cost of sales		
Production costs	20,563,873	15,787,805
Net realisable value adjustments	103,858	353,716
Inventories written off	342,863	284,888
Total	21,010,594	16,426,409

Included in administrative and other expenses are the following:

Listing and registry fees	171,626	138,662
Accountancy and legal fees	193,024	324,901
Insurance	232,350	235,745
Travel costs	318,922	235,330

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

Consultancy fee	109,338	365,073
Occupancy costs	40,266	306,243
Credit losses	20,571	39,838
Depreciation and amortisation	1,880,784	212,565
Employee costs		
Wages and salaries	2,620,775	2,008,082
Superannuation	227,540	135,994
Shared based payments	974,267	288,288
Employee benefit expense – Nulac acquisition	-	4,461,853
Total	3,822,582	6,894,217
Other expenses		
Corporate transaction accounting and legal expense	171,007	6,068
Total	171,007	6,068
Finance costs		
Interest expense	133,064	70,506
Interest expense on lease liabilities	77,506	-
Unwinding of deferred consideration payable	498,208	295,048
Total	708,778	365,554

6. Loss per share (LPS)

	2019	2018
Loss attributable to the Group used in calculating basic and diluted EPS	(7,557,846)	(8,826,965)
Weighted average number of ordinary shares for basic EPS	516,019,139	441,409,837
Basic LPS (dollars)	(0.01)	(0.02)
Diluted LPS (dollars)*	(0.01)	(0.02)

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

* The Group has granted 9,541,620 options to employees that could potentially dilute basic earnings per share in the future, but were not included in the calculation above because they are anti-dilutive for the period(s) presented.

7. Trade and other receivables

	31/12/2019	30/06/2019
	\$	\$
Trade debtors	12,358,658	8,311,802
Allowance for credit losses	(19,661)	(3,755)
Deferred consideration receivable	3,493,000	3,493,000
Other receivables	2,811,630	956,828
Working capital adjustment	2,794,927	2,794,927
	<u>21,438,554</u>	<u>15,552,802</u>

8. Inventories

	31/12/2019	30/06/2019
	\$	\$
Raw materials	14,898,491	7,013,222
Finished goods at cost	8,660,763	7,539,178
	<u>23,559,254</u>	<u>14,552,400</u>

9. Fair value measurement

A reconciliation of fair value measurement of the deferred consideration payable is provided below:

Balance at 30 June 2019	\$12,347,062
Unwinding of the deferred consideration payable recognised in profit or loss in the current period	\$498,208
	<u>\$12,845,270</u>
Balance at 31 December 2019	<u>\$12,845,270</u>

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

10. Leases

Right of use assets

	Buildings	Equipment	Total
	\$	\$	\$
Cost			
At 1 July 2019	2,444,996	76,042	2,521,038
Additions	-	-	-
At 31 December 2019	2,444,996	76,042	2,521,038
Accumulated depreciation			
At 1 July 2019	-	-	-
Charges for the period	219,986	9,117	229,103
At 31 December 2019	219,986	9,117	229,103
Carrying amount			
At 31 December 2019	2,225,010	66,925	2,291,935

The Group leases several assets including buildings and IT equipment. The lease terms range from 1.7 – 6.25 years (2018: 1 - 7.25 years).

Amounts recognised in profit and loss

	31/12/2019
	\$
Depreciation expense on right-of-use assets	186,214
Interest expense on lease liabilities	77,506
Expense relating to short-term leases	9,906

The total cash outflow for leases amount to \$284,000.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

11. Lease liabilities

	31/12/2019
	\$
Current	403,626
Non-current	2,382,041
	<hr/> 2,785,667
 Maturity analysis	
Year 1	542,932
Year 2	562,785
Year 3	496,316
Year 4	499,858
Year 5	506,935
Onwards	651,512
	<hr/> 3,260,338
 Less unearned interest	 474,671
	<hr/>
Total	2,785,667

The Group does not face a significant liquidity risk with regard to its lease liabilities. All lease obligations are denominated in Australian dollars.

12. Share capital

	31/12/2019		30/06/2019	
	Shares	\$	Shares	\$
Movement in share capital				
Balance at beginning of the year	509,590,057	189,059,150	436,194,415	142,189,264
Issue of shares as part of acquisition	-	-	15,384,615	13,384,615
Share based payment expense – Corporate transaction	12,356,627	13,732,827	-	-
Exercise of options	1,506,545	150,655	7,910,805	791,081
Placement of shares	31,578,947	30,000,000	-	-
Share purchase plan	5,263,158	5,000,000	50,100,222	32,738,477
Share issue transactions costs	-	(977,272)	-	(44,287)
Balance at end of year	560,295,334	236,965,360	509,590,057	189,059,150

Fully paid ordinary shares carry one vote per share and carry right to dividends.

1,506,545 options which were granted prior to 30 June 2017 were exercised during the period.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2019

13. Share based payments reserve

The equity settled payments reserve is used to record the value of share-based payments. The movement in the share based payments reserve is as follows:

	31/12/2019	30/06/2019
	\$	\$
Balance at the beginning of the year	24,878,923	3,106,465
Share based payment	974,267	1,346,954
Share based payment – Corporate transaction	(13,732,827)	20,425,504
Balance at the end of the year	12,120,363	24,878,923

Share based payment – Corporate transaction represents the value of shares that the Group has issued to Chemist Warehouse Retail Group during the period. The value of the shares was transferred to the issued capital with a reduction in the share based payments reserve. Further details of this transaction are disclosed in Note B4 in 30 June 2019 annual report.

An initial tranche of 2,974,272 fully paid ordinary shares was issued to Chemist Warehouse Retail Group on 2 September 2019 upon Chemist Warehouse stocking the products in accordance with the Heads of Agreement. The second tranche of 9,382,355 fully paid ordinary shares was issued on 23 December 2019 upon the approval at Bubs’ 2019 AGM.

As part of the Chemist Warehouse transaction, the Group is required to pay cash for the GST component relating to the shares to be issued to Chemist Warehouse. This has been presented as a share based payment liability. This amount is expected to be fully recoverable and a corresponding GST receivable has been recorded.

14. Subsequent events

No matter or circumstance has arisen since 31 December 2019 that has significantly affected, or could significantly affect the reported results from operations or financial position for the period then ended.

Bubs Australia Limited and Controlled Entities
Director's Declaration
31 December 2019

In the opinion of the Directors of Bubs Australia Limited (the 'Company'):

- a) The financial statements and notes that are set out on page 16 to 24 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the financial position as at 31 December 2019 and its performance for the half year ended on that date; and
 - ii. Complying with Accounting Standard *AASB 134: Interim Financial reporting* and the *Corporations Regulations 2001*.
- b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Dennis Lin
Executive Chairman

26 February 2020