



25 January 2019

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

Continued growth in all US distribution channels in challenging market conditions

Yowie Group Ltd (ASX: YOW) (the “Group” or “Yowie”) provides the following update for the quarter ending 31 December 2018.

Q2 Highlights

- Continued progress on key strategy of increasing US distribution; 26% increase quarterly versus the previous year with growth in all channels (Grocery, Mass, Drug, Convenience).
- Q2 sales affected by challenging market conditions. Resilient performance given significant holiday competitive promotional and display activity from several major confectionary companies responding to aggressive activity from global surprise inside company.
- Improved financial performance; unaudited EBITDA loss of -US\$534k versus -US\$2,689k in the previous year.
- Improved quarterly operating cash flow of -US\$435k, compared to -US\$1,854k in Q2FY18.
- First half positive operating cash flow of US\$146k and strong cash balance of US\$18,751k.
- New product launch – Yowie Bites

Although trading was resilient in Q2, with the ongoing competitive activity in the US, the Group now expects Yowie to trade EBITDA profitably on a run rate basis by the end of FY19 and to deliver on the 5% EBITDA margin guidance during FY20.

In 2HFY19 the Group expects to deliver ongoing growth in US distribution, a new product launch, continued disciplined cost management and an improvement in operating cash flow.

Q2 Financials –Update

Q2 sales were US\$4,070k, -25% versus the pcp due to significant competitive activity in November and December in the US. Several competitors made large investments to respond to the global surprise inside competitor which launched in December 2017 and increased its investments again in November 2018. The quarterly category effect of this heavy investment was the global surprise

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inside competitor made large market share gains and is expanding its leadership as the #1 selling chocolate item. Yowie's other major competitors, despite increasing their own investments, were flat or declined. Other novelty competitors were down overall.

Additionally, in December Yowie's major customer commenced a program to reduce its days on hand inventory targets across the front-end candy section, further softening the Group's sales in Q2. This impacted on shipments into the warehouse although did not affect underlying consumer demand. We are addressing the current landscape by pursuing off peak display opportunities, adding a new Yowie item starting in May, continuing distribution expansion and refocusing marketing spending.

Group EBITDA (unaudited) for the quarter showed a loss of -US\$534k compared to a -US\$2,689k in the previous year and 1H loss of -US\$712k compared to -US\$4,239k in the previous year. Net operating cash burn for the quarter was -US\$435k compared to -US\$1,854k. Net operating cash flow was positive for 1HFY19 at US\$146k compared to a burn of -US\$3,331k for the prior corresponding period. Yowie's balance sheet is strong with net cash of US\$18,751k.

US Distribution

Encouragingly, Yowie continues to grow distribution in **all** channels.

For the past 13 weeks ending 29 December 2018, total US distribution including Convenience increased to 42.8%, a rise of 8.9% ACV (26% growth) compared to twelve months ago.

<i>Channel</i>	<i>ACV%</i>		
	<i>2018</i>	<i>2017</i>	<i>Change</i>
Total US + Conv	42.8	33.9	+8.9
Convenience	24.2	9.9	+14.2
Food	19.8	13.4	+6.5
Drug	22.5	16.0	+6.5
Mass	98.9	97.0	+1.9

Marketing

Marketing spend for 2H 2019 is shifting from organic reach to using paid ads to connect to the consumer, promote collectability and broaden reach and awareness. We are also shifting our focal platforms to better reach our target consumer. The purpose of this shift is to drive penetration into more households by leveraging high reach messaging channels to promote swift trial of our product.

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New Product Launch

We are excited to introduce Yowie Bites launching in the US market on shelf in May 2019 with acceptance into our largest US customer and additional retailers committing to the item this fiscal year. The competitively priced offering will introduce children to some of the most intriguing animals of land, sea and sky, along with their geographical habitats.

Yowie Bites is a boxed treat containing two 9g foiled solid pieces of delicious 100% milk chocolate that is Rain Forest Alliance certified non-GMO, and gluten free. The surprise inside is a collectible animal with a second surprise: a quality puzzle piece showcasing the part of the world in which the animal lives. The first series contains 20 popular animals that live in Australia, North America and the oceans in between. Also included is a full color leaflet with educational information and an invitation to our digital assets.

This new product will surprise and delight children and help them to develop an affinity for the animals and their natural habitats. Yowie Bites is a significant addition to our brand portfolio as we pursue our mission to help children play and learn about the natural world. We believe Yowie Bites will appeal to our existing consumer base and bring new consumer into the Yowie World.

Bites is the initial addition of new Yowie branded confection items to broaden our appeal, encourage collectability and continue to promote our mission of educating children about the natural world and conservation.

Outlook

We expect 2H revenues to be in line with the prior corresponding period. Addressing sales growth will continue to be our top priority. We are focused on driving more US distribution with the 50% mark the next hurdle objective and furthering expanding our Australian distribution, as well as pushing broad acceptance of the Bites.

We continue to evaluate every aspect of our business and cost structure. Cost saving programs commenced last January resulted in US\$4.6m of annualized savings (Admin & Selling: US\$2.3M, Marketing: US\$1.3M & Product design: US\$1M).

Innovation is critical to keep our brand fresh, drive collectability, and grow sales. We will continue to launch new Yowie Series regularly and bring new offerings such as Yowie Bites to address consumer needs and diversify our portfolio. We will continue to update and add digital experiences to keep the consumers engaged with Yowie.

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About Yowie

Yowie Group Ltd is a global brand licensing company specializing in the development of consumer products designed to promote learning, understanding and engagement with the natural world through the adventures and exploits of six endearing Yowie characters. Educating children and adults about the environment and ecology is at the heart of the Yowie proposition.

Yowie Group employs its company-owned intellectual property rights in the outsourcing of the manufacturing and distribution of the Yowie chocolate confectionery product and in the development of a Yowie digital platform and Yowie branded licensed consumer products. The Company's vision for the Yowie brand is to distribute on a widening basis the Yowie product in North America and ANZ, with further international expansion.

For more information on the company go to www.yowiegroup.com

The Yowie consumer website can be found at www.yovieworld.com

DISCLAIMER

This Announcement contains interpretations and forward-looking statements that are subject to risk factors associated with the confectionery and retail industries. You are cautioned not to place reliance on these forward-looking statements, which are based on the current views of the Company on future events. The Company believes that the expectations reflected in the announcement are reasonable but may be affected by a variety of variables and changes in underlying assumptions which could cause actual results to differ substantially from the statements made.

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