



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

BUBS® INFANT FORMULA STRONG GROWTH IN DOMESTIC RETAIL AND CHINA DIRECT PARTLY OFFSET MAJOR COVID-19 DISRUPTION IN DAIGOU CHANNEL DURING VOLATILE PERIOD

Melbourne, 26 February 2021: Bubs Australia (**ASX: BUB**) submits the Half Yearly Activities Report and auditor reviewed financial results for the six months ended 31 December 2020.

Bubs Founder and Chief Executive Officer, Kristy Carr said: "The external forces brought on by the COVID-19 pandemic led to extensive channel disruption and supply and demand volatility across our sector in 2020.

"While not immune to these factors, Bubs' strong foundations, organisational agility and resilient business model delivered solid turnaround momentum with quarter-on-quarter sales growth following the major COVID-19 driven disruption to the Daigou Channel." Mrs. Carr said.

Bubs® brand consumer offtake and market presence growing.

- Bubs Australia was the fastest growing infant formula manufacturer¹ across Woolworths, Coles and Chemist Warehouse and tripling market share pcp² with combined retail scan sales at checkout up +55% 1H FY21 on prior year¹.
- Bubs® Goat Infant Formula gross revenue³ to China increased significantly during the first half, up +36% pcp, partly offsetting sudden unforeseen disruption to the outbound Daigou channel.

"Importantly, Bubs Australia continues to be the fastest growing infant formula manufacturer in the top two Australian grocery retailers and the country's leading pharmacy retailer, tripling market share² with high scan sales growth at retail checkout across the half year, up 55 percent¹ on prior year.

"Bubs® Goat Formula total direct sales to China also increased significantly during the first half with 36 percent uplift in gross revenue³ compared to prior year. While this strong performance demonstrates Chinese consumer demand for Bubs® premium products remains strong, the increase was not sufficient to outweigh the 57 percent decline in gross revenue³ from the Daigou channel in the 1H FY21 compared to the prior year.

"Although the first half was challenging and resulted in Group gross margin pressure as we rebalanced our inventory position, we have a robust plan in place to focus on core goat dairy profit drivers working alongside our strategic partners, including supporting our Daigou channel partners to maximise the opportunity for Bubs® as a lead challenger brand in the infant formula category to benefit from the recovery." Mrs. Carr said

China E-Commerce to outstrip bricks and mortar in 2021.

- During calendar year 2021, China is set to be the first country in the world where e-commerce will outstrip bricks and mortar sales⁴.

"The rapid shift towards e-commerce plays to our strengths in terms of our own selling into China through e-commerce marketplaces and social commerce, as well as peer-to-peer transactions facilitated by the Daigou channel. We continue to work closely with our Corporate Daigou strategic partner, AZ Global



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whose channel has revolutionised with sales expected to normalise throughout CY21 and return to pre-COVID levels in CY22. Effectively, the Daigou channel is merging with the cross border e-commerce channel (CBEC) and is no longer considered a 'grey channel' with legitimacy established via the implementation of the Chinese government tax system.

"As China's competitive landscape through bricks and mortar continues to intensify, Bubs is well positioned to work with its strategic partners to build brand awareness and new user acquisition through integrated digital e-commerce channels. The Goat infant formula segment within the wider infant formula category, continues to be a key driver fueling the growth of premiumisation in the category, with the Goat milk infant formula cross border e-commerce category growing 88% on prior calendar year, compared to a growth rate of 56% for the total China infant formula category in cross border e-commerce platforms.⁵

"By facilitating reactivation of the Daigou channel into a Daigou 2.0 omnichannel selling model, including online-to-offline, livestreaming e-commerce and social selling channel, offering delivery ex-Australia or via cross border warehouses within China, we believe given the size of the market opportunity, this is the most important short-term focus for the business, which will also drive the highest margin and growth for our core goat dairy products," Mrs. Carr said.

Increasing operational momentum after initial COVID-19 impacts.

- Bubs® is now No.1 goat formula brand in Chemist Warehouse⁶ and No.2 in both major grocery chains⁷.
- Bubs® Infant Formula gross revenue³ increased +5% in Australian retail despite total category sharp decline.
- Bubs Organic® Infant Formula is now No.2 organic formula brand¹ in the top two Australian grocery retailers and the country's leading pharmacy retailer, up +173% pcp¹ scan sales growth in the half.
- Strong consumer offtake sales for Bubs® Goat Formula on Alibaba Tmall Global, up +121% pcp.⁸
- CapriLac® ranked No.1 goat milk brand on Tmall Global during Double 11 and throughout 1H FY21.⁹
- Export gross revenue outside of China increasing +44%¹⁵ 1H FY21 pcp, with sales momentum expected to continue across new SE Asian markets.

Commenting in more detail on operational performance, Mrs. Carr said: "Bubs® is now the No.1 goat infant formula brand⁶ in Chemist Warehouse and No.2 organic infant formula brand¹ in Australia's leading grocery and pharmacy retailers.

"China direct export gross revenue³ of Bubs® Goat Infant Formula increased 36 percent over the prior corresponding period. This included strong performances during the shopping festival events.

"Bubs® Goat Infant Formula sales growth momentum on leading China e-commerce marketplaces continues to accelerate, with 121 percent growth⁸ on Tmall Global compared to the same period last year. This demonstrates the continued strength of our Alibaba strategic relationship and traction for the Bubs® brand amongst Chinese parents.

"In addition to the Bubs® brand health metrics intensifying, CapriLac® also enjoyed strong growth on Tmall Global becoming No.1 goat milk brand on the platform during the Double 11 festive period⁹.



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COVID-19 and adverse channel mix has impacted gross margin and gross revenue³ to revenue ratio.

- Group 1H FY21 gross revenue³ \$22.2m, down -23% pcp, limited by significant disruption to Daigou channel, although swift recovery evident with strong QoQ turnaround +36% Q2 FY21 on Q1 FY21.
- Group 1H FY21 revenue \$18.3m down -33% pcp, mainly driven by trade spend reallocated from reduced brand marketing investment in 1H FY21.
- COVID-led channel disruption with softening of demand, led to Group gross loss decrease to \$1.5 million loss, primarily reflecting inventory provision of \$3.1 million and sale of excess bulk powder inventory at a loss to maximise cash conversion. Group gross margin excluding inventory provision and bulk powder sales is 16%.
- Bubs[®] Goat Formula product margin¹⁰ at 34%, consistent with FY20 despite significant short-term disruption to most profitable channel routes

"Whilst the consumer offtake of both Bubs[®] Goat Infant Formula and CapriLac[®] milk powder have been growing in Domestic Retail and China e-Commerce, the sudden demand surge brought on by pantry stocking at the onset of the pandemic, followed by the subsequent abrupt collapse in the Daigou channel demand, led to an excess inventory position, particularly in relation to raw materials. A decision was taken to prioritise cash conversion by selling off excess bulk powder at a loss.

"As a consequence, Group product margin excluding inventory provision and bulk powder sales fell to 16 percent, however Bubs[®] Goat Infant Formula product margin remained in line with FY20 at 34 percent¹⁰. Short term changes in channel mix away from more profitable channel routes also drove this Group gross margin impact.

"There was also a widening of the gap in gross revenue³ to revenue due to the reallocation of brand marketing spend towards increased investment in trade co-op investment in 1H FY21.

Disciplined OPEX Management

- Distribution costs/Gross Revenue³ % at 5% compared to 3% pcp.
- Marketing costs decreased 21% due to domestic brand marketing investment being re-directed into in-channel activity in the short-term.
- Employee costs¹¹ remained consistent with FY20.
- Increased admin costs¹² mainly due to bad debts provision and increased costs for IP protection in new international markets.

The overall statutory EBITDA loss incorporates COVID driven expenses outside of the normal operating conditions:

- Statutory EBITDA was also materially impacted recording a loss of \$14.4 million for 1H FY21.



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Executorial priorities to drive efficiencies remain core operational focus.

"Our key initiatives for improved product margin remain a priority, with significant supply chain efficiencies coming through and an expectation of lower proportion of trade spend in the second half onward, we are determined to enhance product margins across our core portfolio.

"Our focus is on driving profitability through increasing operating efficiencies and effectiveness, with supply chain productivities, tweaking range rationalisation of non-core products and rebalancing inventory, together with efficient trade spend allocation and redirection of brand investment to drive digital and social e-commerce.

"In addition, continued focus on our core goat dairy business as the driver of our profitable growth will remain the key priority.

"Elsewhere in the portfolio we are pleased with the progress of Vita Bubs® which has been supported by our global brand ambassador Jennifer Hawkins media presence. However, having only launched in 1H FY21, sales of this high margin product are not yet a material share of group revenue.

"With a robust balance sheet of \$40.2 million in cash reserves and strong cash equivalent inventory position to fulfil future demand, the Company is well placed to pursue our strategic goals towards delivering profitable and scalable sustainable growth," Mrs. Carr said.

BALANCE SHEET / CAPITAL STRENGTH

Bubs Australia continues to maintain a robust balance sheet with \$40.2 million in cash reserves as of 31 December 2020.

DEVELOPMENTS POST BALANCE DATE

- Selected YP Corporation as nominated distribution partner for South Korea – a US\$431m¹³ infant formula market (US\$43.1m Goat Infant Milk Formula)¹³. YP serves all major e-commerce channels along with mother and baby stores, department stores and hypermarkets, and the paediatric and hospital channel.
- Material product margin¹⁰ improvement for relaunched CapriLac® fresh goat milk expected in 2H FY21.
- New Chinese label CapriLac® general trade products approved for launch into China bricks and mortar community grocery stores in 2H FY21: doubles addressable market size for adult goat dairy¹⁴.



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OUTLOOK

Executive Chairman, Dennis Lin said: "The strong sales growth recovery across our core product segments in the regions in which we operate, demonstrate the agility with which we reacted and addressed the new paradigm.

"We believe we are taking the appropriate steps to grow our penetration in addressable markets where we see the greatest potential and opportunity to win, recognising that there will continue to be variable flow-on effects from the COVID-19 pandemic.

"In light of that, it would not be appropriate to make any detailed financial forecast. However, we can say that we expect to achieve modest half-on-half gross revenue growth in the second half of FY21. We are confident we are well placed with strong foundations, brand share growth and a robust balance sheet to go forward with a sustainable and profitable expansion strategy to emerge as a lead challenger brand once the crisis subsides and market dynamics stabilise," Mr Lin said.

This summary should be read in conjunction with the investor presentation lodged today with the ASX. The Appendix 4D Half Year Report and Interim Report and other Company information and financial reports are available on Bubs Australia Investor Resource Centre: investor.bubsaustralia.com

Reconciliation of EBITDA Loss to Loss before tax

	1HFY21	1HFY20
Loss before tax	(17,072,174)	(7,702,578)
Interest income	73,255	139,973
Finance cost	(882,604)	(708,778)
Depreciation and amortisation	(1,862,181)	(1,880,784)
EBITDA Loss	(14,400,644)	(5,252,989)

FOOTNOTES

¹ IRI Scan value scan sales data, Coles, Woolworths and Chemist Warehouse combined 26 weeks to 3.01.2021.

² IRI Scan value sales Dollars ('\$000) data, Coles, Woolworths and Chemist Warehouse combined for 13 weeks ending 3/1/21.

³ Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

⁴ eMarketer Research Report, 10 Feb 2021.

⁵ Expert Interviews from major CBEC channel platform in China - IMF category cross border e-commerce platform 2020 calendar year growth.

⁶ IRI Scan sales Dollars ('\$000) data, Chemist Warehouse 13 weeks to 3/01/21.

⁷ IRI Scan sales Dollars ('\$000) data, Coles and Woolworths 13 weeks to 3/01/21.

⁸ Bubs Goat Milk Formula GMV (Gross Merchandise Value) 1H FY21 growth pcp from Tmall Global platform data.



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⁹ Q2 FY21 official results in unit sales data CapriLac® from Tmall Global.

¹⁰ Gross margin is calculated as (Revenue – Production Costs) / Revenue.

¹¹ Employee costs do not include share based payments.

¹² Administration and other costs do not include depreciation and amortisation.

¹³ Euromonitor, Expert Interview, IMF Market Value, Analyst Reports.

¹⁴ Euromonitor, Expert interview.

¹⁵ Includes branded products and raw ingredient sales that occurred in New Zealand or China.

END

Media and Investor Inquiries

Deanne Curry

Ph. +61 2 8353 0401

investors@bubsaustralia.com

media@bubsaustralia.com

About Bubs Australia Limited (ASX: BUB)

Founded in 2006 in Sydney, Bubs Australia's vision is to create new generations of happy, healthy bubs through its range of premium Australian infant nutrition and goat dairy products. Bubs® Goat Milk Infant Formula and Bubs Organic® Grass-fed Cow's Milk Infant Formula, along with organic baby food, cereals, toddler snacks, and Vita Bubs® infant and children's vitamin and mineral supplements, 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 back to the farm gate. 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 2020
Previous corresponding period	31 December 2019

2. Results for announcement to the market

					31 December 2019		31 December 2020
2.1	Total Revenue	down	33%	from	\$27,098,050	to	\$18,286,003
2.2	Loss after income tax benefit	Up	71%	from	(\$7,557,846)	to	(\$12,896,529)
2.3	Loss after income tax benefit attributable to the members of Bubs Australia Limited	up	71%	from	(\$7,557,846)	to	(\$12,896,529)

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	

<p>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 2020.</p>
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3. Net tangible assets per security

	30 June 2020 Cents	31 Dec 2020 cents
Net tangible asset backing per ordinary security	7.74	10.55

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 2020.

For the year ended 30 June 2020, no final dividend was declared.

Previous corresponding 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.

6. Details of dividend / distribution reinvestment plan

Not applicable.

7. Details of associates and joint venture entities

As at 31 December 2020, the Company has the following associate entity:

- 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 2020 is attached.

11. Signed

A handwritten signature in black ink, appearing to read 'Dennis Lin', is centered on a light gray rectangular background.

Dennis Lin
Executive Chairman

26 February 2021

Bubs Australia Limited and Controlled Entities
ACN 060 094 742

Interim Report – 31 December 2020

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Bubs Australia Limited and Controlled Entities
Corporate Directory
31 December 2020

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 Touche Tohmatsu
477 Bourke Street
Melbourne VIC 3000

Australian Stock Exchange

ASX Code: BUB

Bubs Australia Limited and Controlled Entities

Directors report

31 December 2020

Directors

The names of the 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 and opex management

The Group achieved gross revenue¹ of \$22.2 million (23% down on 1HFY20) and revenue \$18.3 million (33% down on 1HFY20). Gross revenue¹ of Bubs Infant Formula decreased 14% compared to 1HFY20 with revenue of Bubs Infant Formula decreased 29%. The decrease in gross revenue¹ is mainly due to the soft demand the Group has experienced in the Corporate Daigou channel under the challenging COVID environment. The shortfall in the Corporate Daigou channel was partially offset by the strong performance in domestic retail sales and cross border e-commerce distribution channel. Bubs Infant Formula is the fastest infant manufacturer across Woolworth, Coles and Chemist Warehouse with combined retail scan sales growth of 55%².

Due to the impact from COVID, the Group redirected short term domestic brand marketing investments towards greater emphasis on domestic in store trade spend investments. These investments focused on in store activation to support the new product range Vita Bubs and national ranging of Bubs Organic Grass Fed Formula. This had an adverse impact on Group's revenue as a result that the costs are recognised as a deduction of gross revenue.

Despite the contraction of the Corporate Daigou channel, we have seen continuing strong Chinese consumer demand for Bubs Goat Infant Formula. Bubs Goat Infant Formula revenue in cross border e-commerce distribution channel increased 25% compared to 1HFY20.

Group gross margin decreased to \$1.5 million loss. This was primarily driven by industrial bulk powder sales at a loss and \$3.1 million inventory provision. Other factors contributing to the decreased gross margin includes the redirection of domestic marketing investment in the short term towards trade spend, as well as the adverse change in channel mix due to the contraction of the more profitable Corporate Daigou channel. Bubs Goat Infant Formula product margin was 34%³ at 1HFY21 which is consistent with FY20. The Group's gross margin excluding inventory provision and bulk powder sales was 16%³.

Distribution costs to gross revenue¹ ratio increased from 3% to 5%. Employee costs⁴ remained consistent year on year, supporting the ability of our organisational capability to sustain the long

¹ Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

² IRI Scan value sales data 26 weeks as at 03/01/2021, Coles, Woolworths and Chemist Warehouse combined

³ Gross margin is calculated as (revenue – production costs) / revenue.

⁴ Employee costs exclude share based payments.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

term growth. Increased administrative and other costs⁵ is mainly due to bad debts provision and increased costs in IP protection in international markets.

The brand marketing investment decreased 21% compared to 1HFY20. This is mainly due to the short term domestic brand marketing investment redirecting to in store trade spend investment. We continued to make significant and essential investment in brand marketing with a focus on building brand awareness, new customer acquisition and channel capacity in China and other international markets.

On a statutory basis, loss after tax was \$13.0 million (1HFY20: \$7.6 million). EBITDA loss was \$14.4 million (1HFY20: \$5.3 million). EBITDA Loss for 1HFY21 compared to 1HFY20 is set out in the table below.

	1HFY21	1HFY20
Loss before tax	(17,072,174)	(7,702,578)
Interest income	73,255	139,973
Finance cost	(882,604)	(708,778)
Depreciation and amortisation	(1,862,181)	(1,880,784)
EBITDA Loss	(14,400,644)	(5,252,989)

The Group continues to maintain a strong balance sheet position with \$40.2 million cash and cash equivalents at 31 December 2020 (30 June 2020: \$26.0 million) and minimal external debt at balance date. Inventory position has increased since 30 June 2020. In FY20, the Group made a conscious decision to carry a higher level of inventory to protect potential supply chain disruption in the challenging conditions under COVID. Subsequently, the Group experienced the sharp disruption to the Corporate Daigou channel as well as fluctuations in demand caused by pantry stocking in multiple markets. While the Group's finished goods position has improved since 30 June 2020, the raw materials position is expected to further improve in 2HFY21 as the Corporate Daigou channel continues to recover. 29% of inventory is in finished goods as at 31 December 2020 (30 June 2020: 53%).

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 2020 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.

⁵ Administrative and other costs do not include depreciation and amortisation.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

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.

On behalf of the directors



Dennis Lin
Executive Chairman

Sydney

Dated: 26 February 2021

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Bubs Australia Limited (the 'Company') which comprises the consolidated statement of financial position as at 31 December 2020, and the condensed statement of comprehensive income, the consolidated statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 10 to 22.

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 Company's financial position as at 31 December 2020 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*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

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.

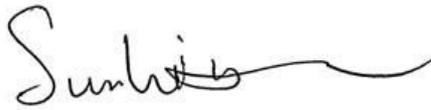
Auditor's Responsibility for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Company's financial position as at 31 December 2020 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*.

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.



DELOITTE TOUCHE TOHMATSU



Lian (Andrew) Sun
Partner
Chartered Accountants
Melbourne, 26 February 2021

26 February 2021

The Board of Directors
Bubs Australia Limited
23-29 Nina Link
Dandenong South, VIC 3175

Dear Board Members

Auditor's Independence Declaration to 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 2020, 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 sincerely



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 2020

	Note	31/12/2020 \$	31/12/2019 \$
Revenue	3	18,286,003	27,098,050
Cost of sales	5	(19,801,631)	(21,010,594)
Gross profit/(loss)		(1,515,628)	6,087,456
Other Income		92,910	6,570
Share of net profits of associate accounted for using the equity method		(57,573)	(38,548)
Distribution and selling costs		(1,137,822)	(789,555)
Marketing and promotion costs		(3,820,569)	(4,813,611)
Administrative and other costs	5	(9,769,678)	(7,415,078)
Other expenses	5	(54,465)	(171,007)
Interest income		73,255	139,973
Finance cost	5	(882,604)	(708,778)
Loss before tax		(17,072,174)	(7,702,578)
Income tax benefit		4,175,645	144,732
Loss for the period after tax		(12,896,529)	(7,557,846)
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		(28,133)	(662)
Other comprehensive loss, net of tax		(28,133)	(662)
Total comprehensive loss for the period		(12,924,662)	(7,558,508)
Loss per share			
Basic (loss) per share (dollars)	6	(0.02)	(0.01)
Diluted (loss) per share (dollars)	6	(0.02)	(0.01)

The accompanying notes form part of these financial statements.

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

	Note	31/12/2020 \$	30/06/2020 \$
Assets			
Current Assets			
Cash and cash equivalents		40,209,940	26,025,575
Trade and other receivables	7	5,040,732	6,619,072
Other assets		1,628,250	1,654,106
GST receivable		408,321	956,045
Inventories	8	33,967,321	30,602,156
Total Current Assets		81,254,564	65,856,954
Non-Current Assets			
GST receivable		260,863	255,768
Plant and equipment		4,553,879	4,067,769
Right of use assets		1,868,710	2,081,000
Intangible assets	10	86,832,130	88,504,687
Investment in associates		485,213	743,542
Deferred tax assets		1,007,859	-
Total Non-Current Assets		95,008,654	95,652,766
Total Assets		176,263,218	161,509,720
Liabilities			
Current Liabilities			
Trade and other payables		9,810,854	11,003,580
Contract liabilities		15,527	67,234
Lease liabilities		440,057	422,805
Borrowings		2,000,000	2,000,000
Provisions		684,977	601,269
Share based payment liability		408,321	956,045
Deferred consideration payables	9	4,815,273	4,510,181
Total Current Liabilities		18,175,009	19,561,114
Non-Current Liabilities			
Lease liabilities		1,940,389	2,166,131
Provisions		163,098	148,841
Share based payment liability		260,863	255,768
Deferred consideration payables	9	4,234,977	3,873,573
Deferred tax liabilities		-	3,605,635
Total Non-Current Liabilities		6,599,327	10,049,948
Total Liabilities		24,774,336	29,611,062
Net Assets		151,488,882	131,898,658

The accompanying notes form part of these financial statements.

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

	Note	31/12/2020 \$	30/06/2020 \$
Equity			
Issued capital	11	274,851,116	236,965,360
Share based payments reserve	12	5,634,177	11,005,047
Foreign currency translation reserve		(40,343)	(12,210)
Accumulated losses		(128,956,068)	(116,059,539)
Total Equity		151,488,882	131,898,658

The accompanying notes form part of these financial statements.

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

For the six month ended 31 December 2020	Issued Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Loss	Total equity
	\$	\$	\$	\$	\$
Balance at 1 July 2020	236,965,360	11,005,047	(12,210)	(116,059,539)	131,898,658
Comprehensive income					
Loss for the period	-	-	-	(12,896,529)	(12,896,529)
Other comprehensive loss	-	-	(28,133)	-	(28,133)
Total comprehensive loss	-	-	(28,133)	(12,896,529)	(12,924,662)
Transactions with owners in their capacity as owners:					
Issue of shares	38,907,402	-	-	-	38,907,402
Capital raising costs, net of tax	(1,021,646)	-	-	-	(1,021,646)
Share based payment expense	-	1,437,631	-	-	1,437,631
Share based payment expense – Corporate transaction	-	(6,808,501)	-	-	(6,808,501)
Balance at 31 December 2020	274,851,116	5,634,177	(40,343)	(128,956,068)	151,488,882

The accompanying notes form part of these financial statements.

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

For the six month ended 31 December 2019	Issued Capital	Share Based Payments Reserve	Foreign Currency Translation Reserve	Accumulated Loss	Total Equity
	\$	\$	\$	\$	\$
Balance at 1 July 2019	189,059,150	24,878,923	1,967	(108,288,401)	105,651,639
Comprehensive loss					
Loss for the period	-	-	-	(7,557,846)	(7,557,846)
Other comprehensive loss	-	-	(662)	-	(662)
Total comprehensive loss	-	-	(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
Interim Consolidated Statement of Cash Flows
For the six months ended 31 December

	31/12/2020	31/12/2019
	\$	\$
Cash flows from operating activities		
Receipts from customers	22,566,286	25,664,010
Payments to suppliers and employees	(38,277,898)	(42,202,666)
Interest received	73,255	159,722
Interest paid	(118,883)	(133,064)
Net cash used in operating activities	<u>(15,757,240)</u>	<u>(16,511,998)</u>
Cash flows from investing activities		
Purchases of property, plant and equipment	(428,551)	(53,654)
Proceeds from disposal of property, plant and equipment	3,490	-
Purchases of intangible assets	-	(35,000)
Payments for interests in associates	-	(1,030,470)
Net cash used in investing activities	<u>(425,061)</u>	<u>(1,119,124)</u>
Cash flows from financing activities		
Proceeds from share issue	32,098,901	35,000,000
Exercise of options	-	150,655
Capital raising costs	(1,459,495)	(1,396,102)
Repayment of lease liabilities	(272,740)	(284,000)
Net cash from financing activities	<u>30,366,666</u>	<u>33,470,553</u>
Net increase in cash and cash equivalents	14,184,365	15,839,431
Cash and cash equivalents at the beginning of the financial year	<u>26,025,575</u>	<u>23,291,058</u>
Total cash and cash equivalents at the end of the period	<u>40,209,940</u>	<u>39,130,489</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 2020

1. Corporate information

The interim consolidated financial statements of Bubs Australia Limited and the entities it controlled (“the Group”) for the six month ended 31 December 2020 were authorised for issue in accordance with a resolution of the directors on 26 February 2021. The interim consolidated financial statements are presented in Australian dollars, which is Bubs Australia Limited’s functional 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 2020 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 2020 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, revised or amending Accounting Standards and Interpretations adopted

Several amendments and interpretations applied for the first time in the 2021 financial period are set out below. These new amendments and interpretations do not have a material impact on the consolidated financial statements of the Group.

AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

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	Half year ended	
	31/12/2020	31/12/2019
	\$	\$
Sale of Infant Formula	8,504,507	12,027,363
Sale of Baby Food and Vitamins	1,016,917	1,680,254
Sale of Adult Goat Dairy Products	8,174,648	12,375,174
Sale of Raw Materials	26,732	-
Canning services	563,199	1,015,259
Total revenue from contracts with customers	18,286,003	27,098,050

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 makers.

Geographic information

	Half year ended	
	31/12/2020	31/12/2019
	\$	\$
Australia	10,323,613	19,594,590
China	5,058,487	5,436,097
Other International	2,903,903	2,067,363
Total	18,286,003	27,098,050

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

The Group had two external customers who generated greater than 10 percent of the Group's revenue. For the period ended 31 December 2020, the revenue for these customers were \$5,758,597 (2019: \$10,277,245) respectively.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

5. Expenses

	Half year ended	
	31/12/2020	31/12/2019
	\$	\$
Cost of sales		
Production costs	16,682,116	20,563,873
Inventories written off	3,119,515	446,721
Total	19,801,631	21,010,594
Included in administrative and other expenses are the following:		
Listing and registry fees	249,934	171,626
Accountancy and legal fees	496,937	193,024
Insurance	336,143	232,350
Travel costs	98,946	318,922
Consultancy fee	105,000	109,338
Occupancy costs	66,391	40,266
Credit losses	1,171,637	20,571
Depreciation and amortisation	1,862,181	1,880,784
Employee costs		
Wages and salaries	2,710,366	2,620,775
Superannuation	251,849	227,540
Share based payments	1,437,631	974,267
Total	4,399,846	3,822,582

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

	Half year ended	
	31/12/2020	31/12/2019
	\$	\$
Other expenses		
Corporate transaction accounting and legal expense	54,465	171,007
Total	54,465	171,007
Finance costs		
Interest expense	150,349	133,064
Interest expense on lease liabilities	65,759	77,506
Unwinding of deferred consideration payable	666,496	498,208
Total	882,604	708,778

6. Loss per share (LPS)

	Half year ended	
	31/12/2020	31/12/2019
	\$	\$
Loss attributable to the Group used in calculating basic and diluted EPS	(12,896,529)	(7,557,846)
Weighted average number of ordinary shares for basic EPS	594,579,342	516,019,139
Basic LPS (dollars)	(0.02)	(0.01)
Diluted LPS (dollars)*	(0.02)	(0.01)

* 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

	31/12/2020	30/06/2020
	\$	\$
Trade debtors	3,796,370	4,451,294
Allowance for credit losses	(1,180,687)	(10,525)
Other receivables	799,949	360,515
Receivable from associates	1,625,100	1,817,788
	5,040,732	6,619,072

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

8. Inventories

	31/12/2020	30/06/2020
	\$	\$
Raw materials	24,120,432	14,266,867
Finished goods	9,846,889	16,335,289
	<u>33,967,321</u>	<u>30,602,156</u>

Significant estimates made

Estimation of net realisable value includes assessment of expected future turnover of inventory held for sale and the expected future selling price of such inventory. Management assessed the recoverability of inventories based on the estimated ongoing impact from COVID-19 on distribution channels and estimated end consumer demand in 2H FY21. Changes in trading and economic conditions, and changes in country specific regulations, may impact these estimations in future periods. Management will continue to monitor the inventory level and minimum life on receipt for finished goods in conjunction with the sales forecasts. In addition, the raw material usage will be monitored on a regular basis, together with the production plan, in estimating the net realisable value of inventories in accordance to the company's policy.

9. Fair value measurement

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

Balance at 30 June 2020	\$8,383,754
Unwinding of the deferred consideration payable recognised in profit or loss in the current period	\$666,496
Balance at 31 December 2020	<u>\$9,050,250</u>

10. Goodwill and intangible assets

In accordance with the accounting standard *AASB 136 Impairment of Assets*, the Group has conducted a review of indicators of impairment during the half year for each of the cash generating units (CGUs) to which goodwill and intangible assets have been allocated.

During the half year, each CGU performance for the half year was below previously assumed in the impairment model. As a result, the Group identified the impairment indicator for Infant Food Co, Nulac Foods and Deloriane Dairy CGUs. The goodwill and intangible assets allocated to these CGUs were tested for impairment at the half year end date.

For each CGU tested, the recoverable amount has been calculated based on the value in use, using a discounted cash flow (DCF) approach. The DCF uses post-tax cash flow projections that are based on the most recent five year financial plan updated for current performance. Discount rate and terminal growth rate have not changed since 30 June 2020.

The impairment assessment concluded the headroom for all 3 CGUs have reduced from 30 June 2020. However, the recoverable amount still exceeds the carrying amount of each CGU, hence no

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

impairments of goodwill and intangible assets have been recognised in the half year to 31 December 2020.

Significant estimates made

The cash flow projections included in the value in use models for each CGU have been adjusted for slower recovery of Corporate Daigou channel as a result of COVID-19 and assumes that the revenue generated from this channel is recovered in future periods. If each CGU is not able to achieve the revenue growth target in the updated value in use model over the forecast periods, then it will result in reduced headroom or impairment of the goodwill and intangible assets allocated to each CGU.

In particular for Deloraine Dairy CGU, the cash flow projection is based on an increased utilisation of its canning facility over 5 years and the assumptions for the timing of SAMR license approval and the contract canning service revenue under SAMR license. Shall the SAMR license approval is delayed, the revenue growth may not be achievable and the CGU will be likely impaired.

11. Share capital

	31/12/2020		30/06/2020	
	Shares	\$	Shares	\$
Movement in share capital				
Balance at the beginning of the year	560,295,334	236,965,360	509,590,057	189,059,150
Share based payment expense – Corporate transaction	12,356,627	6,808,501	12,356,627	13,732,827
Exercise of options	-	-	1,506,545	150,655
Placement of shares	35,371,844	28,297,475	31,578,947	30,000,000
Share purchase plan	4,751,775	3,801,426	5,263,158	5,000,000
Share issue transactions costs (net of tax)	-	(1,021,646)	-	(977,272)
Balance at the end of the period	612,775,580	274,851,116	560,295,334	236,965,360

Fully paid ordinary shares carry one vote per share and carry right to dividends. Fully paid ordinary shares have no par value.

Bubs Australia Limited and Controlled Entities
Notes to the Interim Consolidated Financial Statements
For the six months ended 31 December 2020

12. 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:

	31/12/2020	30/06/2020
	\$	\$
Balance at the beginning of the year	11,005,047	24,878,923
Share based payment	1,437,631	(141,049)
Share based payment – Corporate transaction	(6,808,501)	(13,732,827)
Balance at the end of the period	5,634,177	11,005,047

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.

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.

The third tranche of 12,356,627 fully paid ordinary shares were issued on 24 July 2020 upon satisfying its sales performance condition of meeting minimum sales target for the year ended 30 June 2020.

The remaining 24,713,254 fully paid ordinary shares will be issued in two annual tranches, each of 12,356,627 shares upon the future satisfaction of sales performance targets by Chemist Warehouse relating to the actual sales of Bubs products in Chemist Warehouse stores for the years ending 30 June 2021 and 30 June 2022.

As part of the Chemist Warehouse transaction the Group engaged in FY19, 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.

13. Subsequent events

No matter or circumstance has arisen since 31 December 2020 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 2020

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

- a) The financial statements and notes that are set out on page 10 to 22 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of the financial position as at 31 December 2020 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 2021