



January 29, 2020

## Growth in B2B accelerating faster than expected

*Quarterly Activities Report & Appendix 4C for the quarter ended 31 December 2019*

**Melbourne, Australia** – Candy Club Holdings Limited (ASX: CLB) (“**Candy Club**” or “**the Company**”) is pleased to announce its results for the three months ending 31 December 2019 (“**4Q FY2019**”).

Candy Club has been focusing on business-to-business (“**B2B**”) segment and obtaining new distribution in the US market, targeting its sales efforts on winning large regional and national accounts.

4Q FY2019 reflects a period of rapid acceleration in the Company’s performance, including the acquisition of a number of key national B2B clients in the US.

Key highlights of the past quarter include:

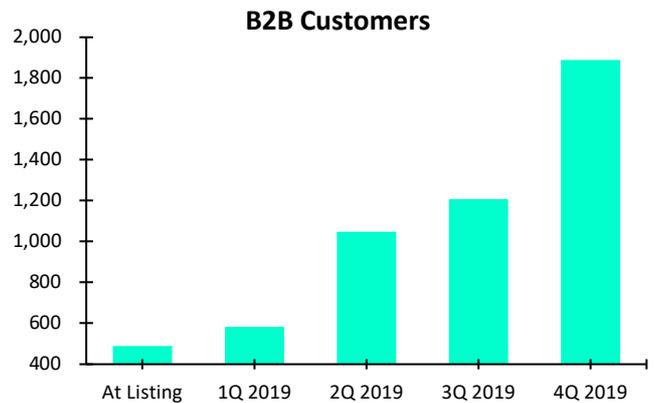
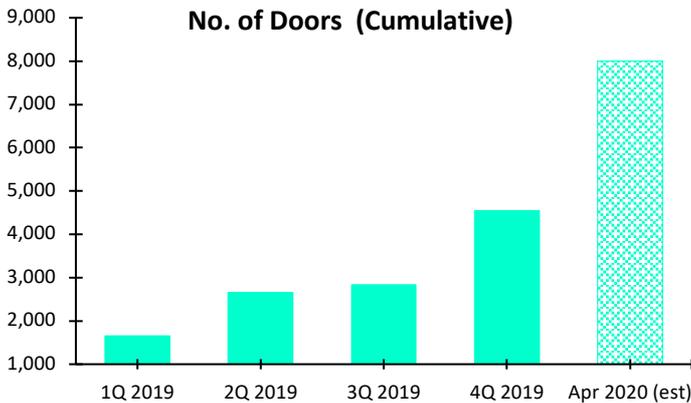
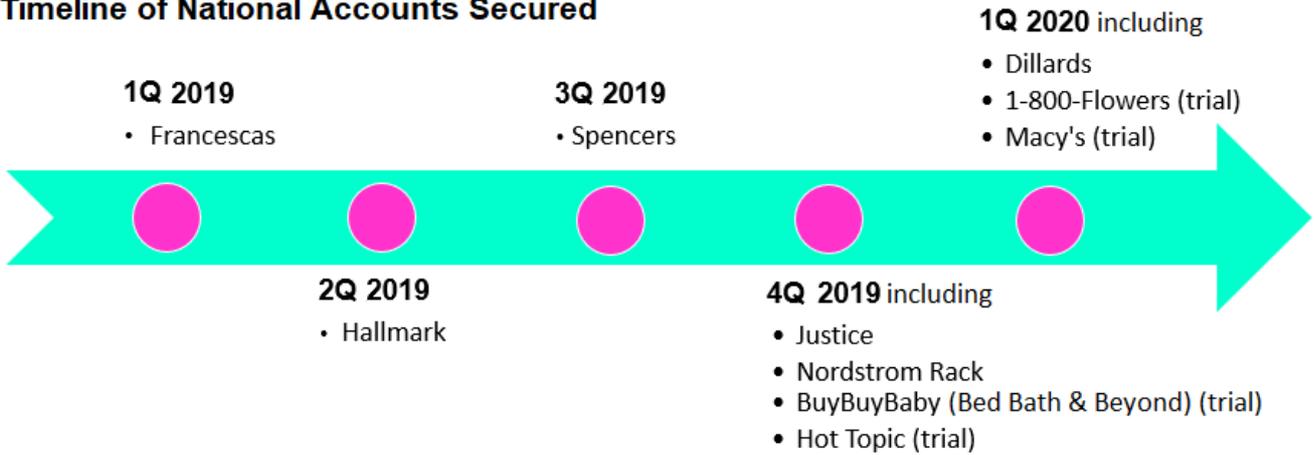
- Candy Club showed rapid accelerating growth in its B2B segment, further validating the Company’s strategy to focus in its “white space strategy” in targeting under-utilised retail space at point of sale.
- Six new major US accounts committed to expand to full national distribution including Justice, Nordstrom Rack, and Dillard’s plus several more trial accounts including BuyBuyBaby (Bed Bath & Beyond), and Hot Topic. The Company is on track to secure more major national accounts in the next quarter.
- The Company is focused on three key metrics, namely number of retail doors, re-order rate and bookings:
  - Rapid expansion in number of retail doors from 1200 to more than 4500 in less than 12 months, and the Company expects to achieve 8000 retail doors by end-April 2020.
  - Significant quarter-on-quarter (“**QoQ**”) jump in bookings of 150% from \$140,000 to \$350,000. Bookings are defined as forward orders not yet shipped.
  - The Company’s top 10 customers have, on average, had a re-order rate of more than 90% in every month in 2019.
- Total revenue for the quarter grew 22.2% to \$1.6 million led by the B2B segment which grew 133% from \$292,000 to \$681,000.
- Blended gross margin for Q4 FY2019 was 27%. The deployment of the automation equipment since October 2019 is expected to improve cash operating margins to approximately 38% for the full year 2020 after all existing inventory produced prior to the automation implementation is exhausted.
- The net operating cash flow (“**NOCF**”) continued to improve during the quarter, bringing it to -\$2.1m from -\$4.2m in 4Q FY2018. As the business continues to scale with improved gross margins, and as legacy accounts payable expenses are reduced dramatically to only \$400k AUD in Q1 2020, the company expects to become cash flow positive on an operating basis later in 2020.

### Operational Performance

Candy Club is pleased to inform shareholders that the Company has made rapid progress in 4Q FY2019. Candy Club has secured a number of major national retail stores in the US under its B2B segment.

The Company continues to focus on growing its B2B segment while bringing business-to-consumer (“B2C”) to an optimum level to help provide economies of scale.

### Timeline of National Accounts Secured





### B2B Segment

In line with the Company's renewed strategy, Candy Club has successfully penetrated into the US national retail market in 2019, with six additional national accounts signed in the quarter, including Justice, Nordstrom Rack, and Dillards. This marks a significant milestone for Candy Club as these stores cumulatively have over 1800 locations nationally.

QoQ, the Company has experienced accelerated growth in the number of national B2B accounts. Candy Club's geographical footprint has expanded tremendously, from 1200 B2B retail doors in 1Q FY2019 to more than 4500 retail doors in 4Q FY2019, this is 0.14% of the total addressable market. Based on the Company's current commitment, Candy Club expects to achieve 8000 retail doors by end-April 2020.

"It has been a very successful quarter for Candy Club, and we are proud of accomplishing what we have in just three months," says Candy Club Managing Director Keith Cohn. "Securing these national accounts further validates the quality of our end-products as the big national retail stores have very high procurement standards and require multiple boxes to be checked before a significant order is placed. Candy Club is definitely gaining traction as we continue to secure more national accounts."

### B2C Segment

The B2C segment has played a pivotal role during the initial years of Candy Club and has helped deliver the Company to where it is today. Since inception, the Company has sold over 300,000 subscriptions, shipped 1,200,000 total packages and over 6,000,000 pounds of candy. Candy Club is wildly popular with consumers as evidenced by their significant social media presence including ~900,000 Facebook and ~130,000 Instagram followers. Further, the B2C subscription business advertising campaigns generate over 500,000,000 consumer impressions per year.

With such a strong foundation in understanding the Company's optimum product mix, customer demographics, procurement and supply chain management, and logistics and distribution, the B2C segment has built a platform for the Company to establish a successful and solid B2B segment.

This B2C segment will continue to support Candy Club's focus in the B2B segment in FY2020. The Company believes that the two business segments are highly complementary and will have a synergistic effect, resulting in incremental revenue and significant operating performance.

"I am pleased to see that the B2C's cost per acquisition ("**CPA**") has now reached sub-US\$20 per customer, and at this level, B2C provides positive contribution to the business," says Keith Cohn.

## Cash Flow Performance

Despite the challenging operating environment due to cash constraints, Candy Club has performed well throughout the year recording a 22.2% growth in sales QoQ, bringing total sales for FY2019 to \$6.9m.

Revenue for the quarter grew 22.2% to \$1.6 million led by the B2B segment which grew 133% from \$292,000 to \$681,000. Blended gross margin for Q4 FY2019 was 27%. The deployment of the automation equipment since October 2019 is expected to improve cash operating margins to approximately 38% for the full year 2020 after all existing inventory produced prior to the automation implementation is exhausted.

NOCF showed further reduction during the quarter and Candy Club expects to see this reduced further as the payments from prior periods are fully paid. Should the Company exclude legacy payments, the NOCF would have been 41.3% lower at -\$1.2m.

As the business continues to scale with improved gross margins, and as legacy accounts payable expenses are reduced dramatically to only \$400k AUD in Q1 2020, the company expects to become cash flow positive on an operating basis later in 2020.

As a result of the Company's success and growth over the last quarter, Candy Club has received debt and convertible-debt term sheets from two US-based investors. This further verifies that the Company is receiving increased confidence within the investment community on the back of its renewed strategy. The Company is on track with its internal target of securing more national accounts and number of retail doors (under the B2B segment) in the next quarter.

Directors and major shareholders Mr James Baillieu and Mr Chi Kan Tang have provided the Company with a 12-month convertible debt of US\$600,000 at 1% per month, convertible into shares at \$0.125 per share at the directors' option. This will assist Candy Club's short-term working capital while third-party debt financing offers are being finalised.

## Commentary

Candy Club operates in the confectionery industry sector in the US, a large category that accounted for approximately US\$40b in wholesale sales with 3.2m retail doors in the country. Management believes that the niche that Candy Club is targeting with its unique value proposition in the candy wholesale market is substantial. If the Company continues to acquire retailer clients at its present rate, and continues to achieve high reorder rates, Candy Club will become a very profitable and valuable business.

Candy Club is uniquely positioned with no known direct competitors as the Company targets the middle-to-upper specialty market retailer. The major catalyst for the Company for the coming year will be gaining market share momentum within the confectionery industry.

Candy Club's "white space strategy" is owning the under-utilised retail space at point-of-sale. In putting the Company's products in that space, Candy Club can provide an uplift in gross margin for retailers. As we select the ideal retailers to place Candy Club's products, the Company continues to drive the right brand messaging to its customers.

Further, the Candy Club brand is emerging as a strong and recognizable name to consumers in the US, where the subscriber database has grown to 300,000 current and former subscribers. The brand name also has a strong following on social media with close to 900,000 likes and followers on Facebook and 132,000 followers on Instagram.

"We are incredibly proud to see that since inception, we have only received positive comments from our B2B customers. Strong product sell-through has led to more than 90% re-order rate and location expansion by our top 10 retail customers. There have not been any product returns, requests for price mark-downs or beat ups on price. We strive to continue providing the best products to our valuable customers and retail partners as we enter a new decade," says Candy Club Chairman James Baillieu.

With the latest board member addition, Mr Andrew Clark as a Non-Executive Director, Candy Club is now equipped with a group of directors with a diverse and well-rounded skill set. Having held the role as a Vice President in Reckitt Benckiser's North American business for a number of years, Mr Clark has expertise building brands and growing sales across a broad portfolio and a large customer base in multiple sales channels.

In addition, Mr Clark has an excellent knowledge of the confectionery market having worked in senior roles for large multinational companies with substantial confectionery businesses. With his experience, Mr Clark is ideally placed to leverage his strategy, operational and sales expertise to help Candy Club expand its US operations and grow its sales across a diverse customer base in multiple sales channels.

Candy Club continues to focus on its B2B segment and is on track to secure more national names in the next quarter. The Company has received interest from a number of major retail stores in the country, and has embarked on test programs with retail stores across different sectors including department stores, apparel retailers, gift shops, boutiques, hotels, resorts and airport stores. Candy Club is optimistic these trials will convert to official retail partners.

With the deployment of the previously announced automation equipment that came on-line in early 4Q FY2019 with no additional marketing spend required post-shipment, the Company expects its B2B operating margins to improve significantly. This equipment will reduce labour costs while increasing the total production capacity by 3-fold.

"2020 will be a very exciting year for Candy Club as we embark on a growth journey in the B2B segment. We are confident that with the rapid growth in securing more national accounts, the Company will see a significant jump in its operating performance," says Keith Cohn.

Justyn Stedwell

**Company Secretary**

Candy Club Holdings Limited

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**About Candy Club**

Candy Club Holdings Limited (Candy Club) is a leading specialty market confectionery company which operates a business-to-business (B2B) and business-to-customer (B2C) segment in the United States of America. Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

Founded in 2015 by serial entrepreneur Keith Cohn, Candy Club executes an omnichannel strategy with a vision to become the world's leading specialty market confectionery company.

Candy Club is headquartered in Los Angeles, California, United States.

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

CANDY CLUB HOLDINGS LIMITED

**ACN**

629 598 778

**Quarter ended ("current quarter")**

31 DECEMBER 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date ( 12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,406	6,084
1.2 Payments for		
(a) research and development	(28)	(147)
(b) product manufacturing and operating costs	(1,871)	(7,806)
(c) advertising and marketing	(398)	(1,650)
(d) leased assets	(25)	(250)
(e) staff costs	(630)	(3,045)
(f) administration and corporate costs	(493)	(2,370)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(32)	(259)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(2,071)</b>	<b>(9,443)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date ( 12 months) \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		(69)
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
<b>2.6 Net cash from / (used in) investing activities</b>	-	<b>(69)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares		7,291
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options	(234)	(657)
3.5 Proceeds from borrowings	1,500	5,644
3.6 Repayment of borrowings	(215)	(1,911)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>1,051</b>	<b>10,367</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date ( 12 months) \$A'000
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,846	12
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,071)	(9,443)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	(69)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	1,051	10,367
4.5 Effect of movement in exchange rates on cash held	(49)	(90)
<b>4.6 Cash and cash equivalents at end of quarter</b>	<b>777</b>	<b>777</b>

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	777	316
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		1,530
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>777</b>	<b>1,846</b>

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	111
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
Relates to salaries, other employment related costs and directors fees	

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities		
8.2	Credit standby arrangements	627	627
8.3	Other (please specify)		
8.4	Revolving Line of Credit - 12 Months - Annual Interest Rate - Prime + 5% - Total drawn as of 31/12/2019 - \$428,497 USD		

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	40
9.2	Product manufacturing and operating costs	1,820
9.3	Advertising and marketing	348
9.4	Leased assets	35
9.5	Staff costs	688
9.6	Administration and corporate costs	598
9.7	Other (provide details if material)	115
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>3,644</b>

<b>10.</b>	<b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1	Name of entity		
10.2	Place of incorporation or registration		
10.3	Consideration for acquisition or disposal		
10.4	Total net assets		
10.5	Nature of business		

There have been no acquisitions or disposals during the current quarter.

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  ..... Date: 29/01/2020 .....

Print name: Justyn Stedwell .....

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.