



ASX ANNOUNCEMENT

28 February 2020

BUSINESS OPERATIONS UPDATE

Melbourne, Australia – Candy Club Holdings Limited (ASX: CLB) (“**Candy Club**” or “**the Company**”), a leading premium confectionery business, is pleased to provide the following business operations update.

Highlights:

- Candy Club’s Business-to-Business (“**B2B**”) segment has shown strong growth.
 - The segment showed an increase of 157% in revenue for January 2020. The Company’s Q1 FY2020 revenue is expected to further grow to more than double the revenue recorded in Q1 FY2019.
 - The number of retail doors that sell Candy Club products jumped 275% year-on-year (“**YoY**”) in FY2019 from 1200 to 4500 retail doors. The Company is on track to achieve 8000 retail doors by April 2020 and targeting to achieve more than 15,000 retail doors by December 2020.
 - Bookings, defined as forward orders not yet shipped, increased significantly in value from \$21,000 to \$350,000 in less than 12 months.
 - The Company’s top 10 B2B customers re-ordered at an average of 11 times throughout FY2019.
- Candy Club recorded a YoY increase in revenue to \$6.9 million from \$1 million while the Company’s losses increased to \$7.8 million from \$1.3 million in FY2019. A significant portion of the loss was a direct result of non-operating and one-time, non-recurring expenses. Operating gross margin in FY2019 was 25.6% (after all freight expense) before certain non-cash charges were taken for over-capitalized expenses. With further margin improvement initiatives being implemented throughout FY2020, the Company has targeted to achieve profitability in Q3 FY2020.
- The Company’s strategy to distribute Candy Club products through high-end retail outlets in the US continues to gain momentum with the acquisition of Justice, Nordstrom Rack and Dillard’s in FY2020. This adds to Candy Club’s growing network of high-quality retailers including Bloomingdales, Macy’s, Caesar’s Entertainment, Wynn Resorts and MGM Resorts.

B2B Performance Update

Candy Club’s wholesale business saw an increase in the total number of retail doors shipped in FY2019 by 275% from 1200 to 4500. The Company is on track to penetrate 8000 retail doors by April 2020 and targeting to achieve more than 15,000 retail doors by December 2020. Candy Club experienced rapid

accelerating growth in its number of retail doors resulting from signing partnerships with large US national retailers, all of which were added chainwide in Q1 FY2020. These accounts include prominent retailers Justice (1000 doors), Nordstrom Rack (249 doors) and Dillard's (289 doors).

The Company saw impressive growth of 157% in its January 2020 revenue vs. January 2019. It is expected that Candy Club's Q1 FY2020 revenue to more than double the revenue recorded in Q1 FY2019.

Candy Club's FY2020 new business pipeline is strong, with test programs currently running in several large retailers, including BuyBuyBaby (Bed Bath & Beyond), Hot Topic and Game Stop. If all large retailers who are on test programs in that business pipeline were to expand chainwide, the Company could add an additional 7000 doors across the US.

The Company continues to expand its retail partnerships with national, mid-size and independent retailers. Candy Club's growing list of diverse, high-quality retailers includes Hallmark Stores, MGM Resorts, Wynn Resorts, Caesar's Entertainment, Spencer's, Bloomingdales and Macy's.

Bookings, defined as forward orders not yet shipped, increased significantly valuing from \$21,000 to \$350,000 in less than 12 months.

Since Mr Andrew Clark came on board as Non-Executive Director, he has been actively supporting the business's growth in the US by working with the Company on an interim basis and leveraging on his experience.

"Andrew is a true professional and is already having an immensely positive impact on the business," said founder and CEO Keith Cohn. "He brings a level of experience and competence that is hard to find in any business, let alone one of our size, and we are fortunate to have him".

Candy Club recorded outstanding retail sales where repeat orders accounted for 55% of total revenue in FY2019, even with a significant increase in new customers during the period. The Company's top 10 B2B customers re-ordered at an average of 11 times throughout the year.

"While we are very proud of the progress that we made in our B2B segment in FY2019, our first full year of operations for this business line is truly only the beginning," said Mr Cohn.

"The sheer size of the addressable market, the success we are having in developing retail partnerships with such a diverse set of retailers, big and small, across virtually all verticals we have targeted, and strong consumer demand for our confectionery products leads me to believe that there is no limit to how many doors our products will be carried in the years to come. Our rapid expansion into the retail marketplace is further validation of the 'white-space' opportunity we are going after, and our strong product-market fit will allow us to capitalise on this massive marketplace," Mr Cohn continued.

B2C Performance Update

Candy Club's B2C subscription business is being managed for an optimum ROI.

FY2020 is off to a strong start as all internal KPI's were either met or exceeded in January, including average order value ("**AOV**") and) cost per acquisition ("**CPA**") of \$43 and \$23 per customer, respectively. The segment's gross margin came in at 44% and units shipped were 20% more than planned.

Management continues to find ways to maximise the segment's financial performance as it remains a key part of the Company's overall strategy in its aim to achieve economies of scale. Candy Club believes that

this can be accomplished through big-data customer insights, consumer-facing advertising and brand building efforts which will, directly and indirectly, benefit the Company's B2C and B2B segments.

FY2019 Financial Results (unaudited) and Management Discussion

Candy Club saw a YoY increase in revenue to \$6.9 million from \$1 million while losses increased to \$7.8 million from \$1.3 million in FY2019. Gross margin stood at 25.6% (after all freight expense), before certain non-cash charges for over-capitalised expenses that were taken for the first time since the Company's inception in 2015.

Throughout FY2019, there were several non-operating and one-time, non-recurring expenses that contributed to the annual loss, including expenses related to the Company's IPO, enterprise resource planning implementation, year-end inventory adjustments, professional service fees for legal and accounting work, and stock compensation.

Candy Club does not expect these expenses of similar magnitude to recur moving forward. The Company has also experienced a considerable improvement in operating margins on the back of the automation of the assembly process.

With further margin improvement initiatives being implemented throughout FY2020, the Company has targeted to achieve profitability in Q3 FY2020.

"With the investments the Company has made, coupled with improved infrastructure in place, Candy Club is now a lean and efficient organisation. The Company is fully aligned with our strategic priorities, and we look forward to building Candy Club into the leading specialty confectionery company with a true path to profitability in the foreseeable future," said Candy Club Chairman James Baillieu.

Candy Club is currently having advance discussions with several financial institutions to secure additional growth capital through an asset-backed debt facility. This will further secure additional working capital to fuel the Company's growth plans.

Justyn Stedwell
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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.