



8 July 2020

## Candy Club achieves 135% (quarterly) increase in key B2B revenue

*Quarterly Activities Report & Appendix 4C for the quarter ended 30 June 2020*

**Melbourne, Australia** – Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") is pleased to announce its results for the three months ending 30 June 2020 ("**2Q FY2020**").

Candy Club has recorded a remarkable 2Q FY2020 result amid an extremely challenging operating environment, validating management's view that the COVID-19 pandemic and associated macroeconomic conditions will not negatively impact the Company's growth trajectory.

The Company continued to demonstrate strong growth throughout the quarter, primarily in its key business-to-business ("**B2B**") segment which recorded spectacular growth.

The Company reiterates that it is on target to reach profitability (EBITDA-positive) in 4Q FY2020, a result that will be driven primarily by the strategic shift to focus on B2B customer acquisition in September 2019.

Concurrently, Candy Club would like to inform shareholders of a change in the Company's reporting currency from Australian Dollars to US Dollars, commencing 2Q FY2020. The Company believes this change will better reflect its underlying operational and financial performance as it eliminates irrelevant changes in foreign currency exchange rates.. Historical financial information in this document has been restated to US dollars.

	Q1 FY2020	Q2 FY2020	QoQ Change	1H FY2020
Total gross revenues	US\$1.4m	US\$2.3m	66.6%	US\$3.8m
Gross margins	42.0%	41.4%	-0.6 pts	41.6%
EBITDA	-US\$0.8m	-US\$0.4m	42.9%	-US\$1.2m
NOCF	-US\$1.2m	-US\$0.9m	21.9%	-US\$2.1m

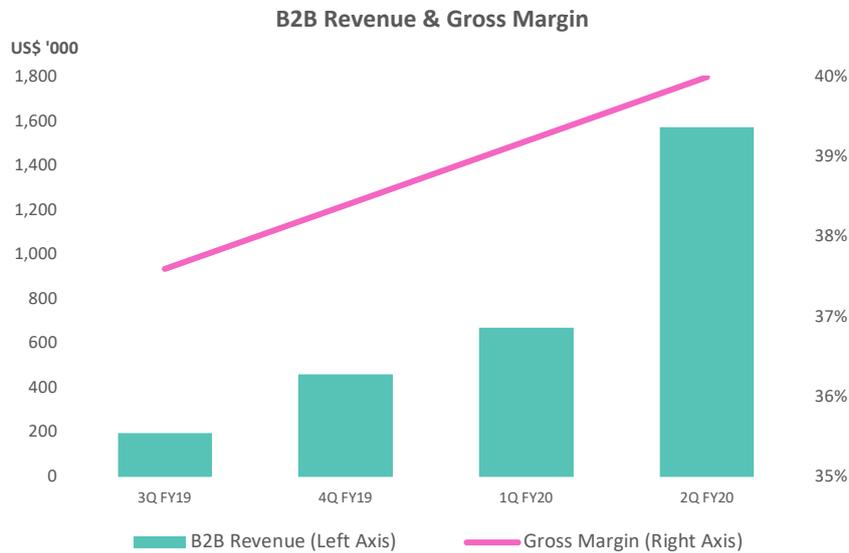
### Key highlights include:

- Total gross revenues grew 67% quarter-on-quarter ("**QoQ**") to US\$2.3 million, mainly driven by 135% growth in B2B gross revenue. Year-on-year ("**YoY**"), growth in B2B gross revenue was 503%.
- Gross margins remained stable during the quarter, standing at 41.4%, while EBITDA loss continued to reduce, at only -US\$0.4 million for the quarter.
- Candy Club expects to reach profitability (EBITDA-positive) with its current balance sheet and available financing facilities in 4Q FY2020 as it continues to focus on sustainably scaling its business.
- NOCF improved to -US\$0.9 million QoQ in 2Q FY2020 from -US\$1.2m. The difference between the EBITDA loss and NOCF can be attributed to inventory purchases required to support future growth (US\$365k), financing costs related to securing financing lines (US\$100k) and interest (US\$35k).
- As the pandemic situation eventually normalises in the US, Candy Club expects the traditional brick-and-mortar B2B pipeline to have a robust return, which will fuel future revenue growth.

## Operational Performance

Since the Company pivoted its focus to the B2B segment in September 2019, the segment has been performing exceptionally well. The B2B segment has become the main driver leading Candy Club to a new era of growth. In 2Q FY2020, the segment's total gross revenue grew 135% QoQ to US\$1.6m.

The growth is mainly on the back of sales surge from retailers (providing essential services) which are unaffected by the COVID-19 pandemic closures, online pureplay e-commerce boutiques and traditional brick-and-mortar e-commerce websites.

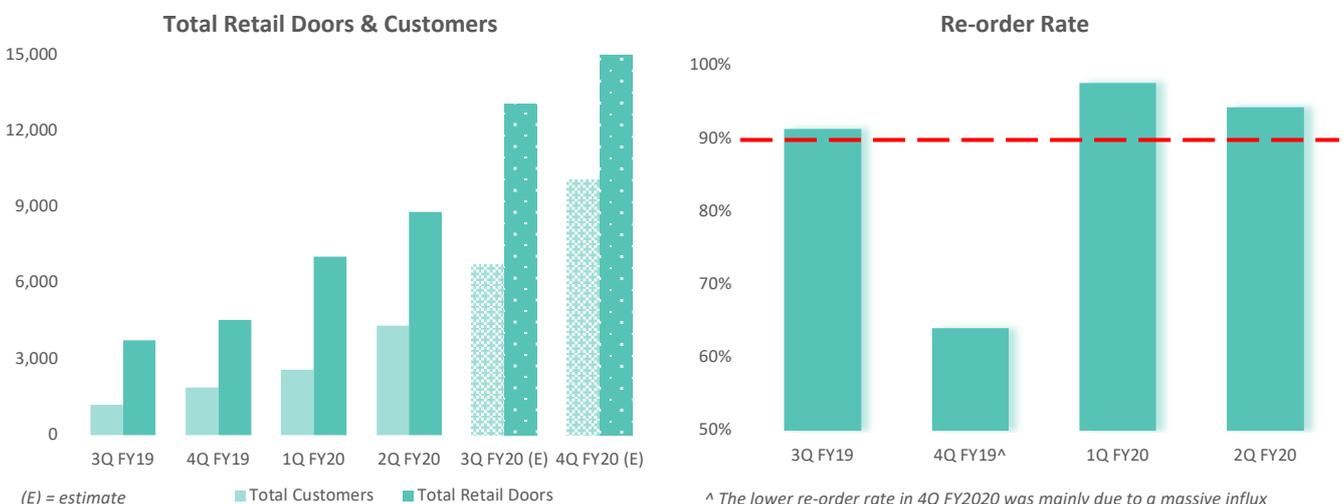


This validates the Company's "white space strategy" – which identifies and targets retail opportunities within existing retail chains – despite experiencing significant closures of traditional brick-and-mortar stores in the US.

All of the B2B segment's key metrics reached significant milestones during the quarter. Candy Club's total number of retail doors continued to increase significantly, from 4500 in December 2019 to more than 8800 June 2020, while the number of B2B customers has more than doubled to almost 4500 in the same period.

Candy Club expects this growth trajectory to continue, with the total number of retail doors and customers to exceed 15,000 and 10,000, respectively, by the end of FY2020.

Candy Club's re-order rates remain healthy as a result of extremely strong consumer demand and strong sell-through rates. Re-order rate is the rate a B2B customer repeats an order. The average quarterly re-order rate has exceeded 90% in three of the last four quarters. Repeat orders represent customer satisfaction in the products purchased. The high re-order rate is bolstered by positive feedback and high ratings received from customers on retailers' websites.



<sup>^</sup> The lower re-order rate in 4Q FY2020 was mainly due to a massive influx of new customers during the quarter.

The B2C segment also saw a solid performance. The subscription-based segment is profitable as a standalone business on the first customer consignment.

“The results we have had in just six months of FY2020 are phenomenal, especially in this challenging environment. Our pivot last year to focus on B2B is working as expected and we continue to see it paying off and driving forward value to shareholders”, said Candy Club founder and CEO Keith Cohn. “These results in what is normally a quieter time in our industry alongside a global pandemic shows the strength of our brand and strategy.”

### Financial Performance

Candy Club once again reported a record quarter, with total gross revenues of US\$2.3 million representing a 67% growth QoQ. This is a spectacular achievement given the challenging operating environment. 2Q FY2020 is also a seasonally softer quarter.

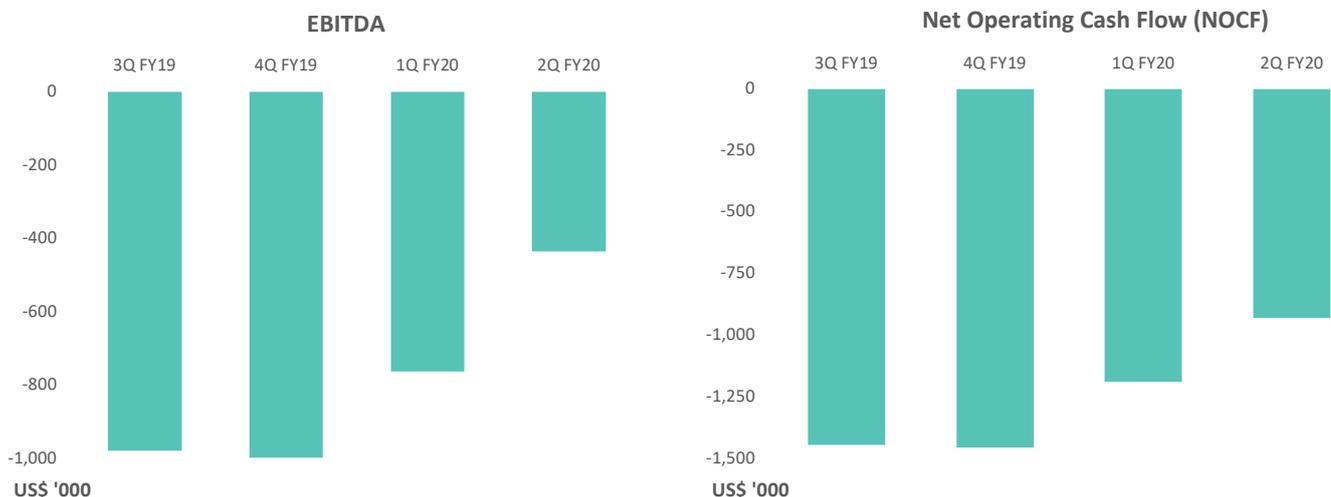
The main driver to this growth was the B2B segment, which has been the Company’s key strategic focus since September 2019. The segment grew 135% QoQ to US\$1.6 million.

Despite the majority of Candy Club’s largest national retail partners experiencing widespread store closures throughout the quarter as a result of the pandemic, the company was still able to grow substantially in the period. This demonstrates the Company has a robust business model that works even in challenging times.

Gross margins remained relatively stable during the quarter, standing at 41.4%.

EBITDA loss continued to lessen, at only -US\$0.4 million. Candy Club expects to reach profitability (EBITDA-positive) in 4Q FY2020 as it continues to focus on sustainably scaling its business.

The difference between the EBITDA loss and NOCF is the increase in inventory purchases required to support future growth (US\$365k), financing costs related to securing financing lines (US\$100k) and interest (US\$35k). NOCF will remain negative in the short term to support necessary inventory purchases resulting from further anticipated growth. There is availability under the inventory credit facility that will be used to support near-term cash requirements.



### Commentary

Candy Club managed to remain focused and drive an increase in shareholder value amid the COVID-19 pandemic and a quarter that is usually seasonally softer.

Candy Club enters the second half of FY2020 with a very promising outlook.

In its B2B segment, the total number of inbound customer leads are ramping rapidly. Generally, 35% of total B2B inbound customer leads convert to B2B customers. This will eventually translate into additional B2B customers, ensuring a robust pipeline of customers to fuel future revenue growth.

As the situation in the US normalises, Candy Club expects the traditional brick-and-mortar B2B retailers to return and B2B revenue growth to accelerate further.

Candy Club's key strategy is to acquire prominent national retail accounts, owning the under-utilised retail space at point-of-sale.

"From a financial and operating standpoint, I could not be happier with Candy Club and the team behind the company. Revenue, EBITDA and NOCF are improving, and our strategy to have the B2B segment as the focus of the Company after our pivot seems to be working, as shown by the big growth numbers," said Candy Club Chairman James Baillieu. "We have encouraging tailwinds, and we are turning profitable by the end of the year. This is one of the most exciting times to be an investor and Chairman of a company, as there are exponential growth and lots of energy in this business."

#### Additional information

The June 2020 quarter is a period which is covered by the Use of Funds Statement as outlined in the Company's Prospectus dated 30 November 2018. Updates to the ASX Listing Rules which were effective from 31 March 2020 now require the Company to provide a comparison of the actual expenditure on individual items in the Use of Funds Statement and an explanation for any material variances in its quarterly reports. A summary of expenditure of the IPO funds raised since listing is set out below:

Use of funds	Funds Raised at IPO and Use of Funds per Prospectus	Actual Expenditure of IPO Funds to 30 June 2020	Variance	
	Amount (A\$)	Amount (A\$)	Amount (A\$)	%
Customer Acquisition	1,135,000	1,376,812	241,812	21%
Increasing Sales Staff	283,750	-	(283,750)	-100%
Acquisition of inventory	851,250	942,029	90,779	11%
Repayment of Promissory notes	620,000	620,000	-	0%
Working Capital	2,134,000	2,085,159	(48,841)	-2%
<b>Total</b>	<b>5,024,000</b>	<b>5,024,000</b>		

#### *Explanation of material differences in the table above:*

The Company considers the only material difference relates to increasing sales staff. IPO funds were not used to increase sales staff as intended as existing staff were able to be utilised more actively in sales and automation enhancements made it possible to add incremental sales staff without increasing overall operating expenses.

The Company has reported its cash flows on a quarterly basis since listing on ASX and considers the use of funds to be consistent with its disclosures since ASX Listing.

#### *Payments to related parties in June 2020 quarter*

Payments to related parties and their associates during the quarter was \$120K which consists of salaries for the CEO, Keth Cohn, and one non-executive director, Andrew Clark, who is also actively engaged in a consulting capacity.

Justyn Stedwell  
 Company Secretary  
 On behalf of the Board of Directors  
 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 cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

CANDY CLUB HOLDINGS LIMITED

**ABN**

96 629 598 778

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

30 JUNE 2020

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,049	3,085
1.2 Payments for		
(a) research and development	(16)	(31)
(b) product manufacturing and operating costs	(1,801)	(2,892)
(c) advertising and marketing	(219)	(442)
(d) leased assets	(17)	(40)
(e) staff costs	(537)	(1,000)
(f) administration and corporate costs	(355)	(716)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(31)	(47)
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>(927)</b>	<b>(2,114)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(100)	(100)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
2.2 Proceeds from disposal of:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) 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>(100)</b>	<b>(100)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	122	196
3.2 Proceeds from issue of convertible debt securities	250	850
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(17)	(32)
3.5 Proceeds from borrowings	1,254	1,652
3.6 Repayment of borrowings	(295)	(346)
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>1,314</b>	<b>2,320</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of period	335	531
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(927)	(2,114)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(100)	(100)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$US'000</b>	<b>Year to date (6 months) \$US'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,314	2,320
4.5	Effect of movement in exchange rates on cash held	18	3
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>640</b>	<b>640</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$US'000</b>	<b>Previous quarter \$US'000</b>
5.1	Bank balances	640	335
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>640</b>	<b>335</b>

**6. Payments to related parties of the entity and their associates**

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter  
\$US'000**

120

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

6.1 relates to salaries, other employment related costs, consulting fees and directors fees

**7. Financing facilities**

*Note: the term "facility" includes all forms of financing arrangements available to the entity.*

*Add notes as necessary for an understanding of the sources of finance available to the entity.*

	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	1,500	1,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 <b>Total financing facilities</b>		

7.5 **Unused financing facilities available at quarter end** 500

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Crossroads Financial LLC (existing)– \$1.5mm credit facility secured by the value of our inventory that currently has \$500,000 of availability. Crossroads has increased this line from \$1mm at the time it was signed to \$1.5mm and has expressed an interest in growing the size of the line further as the company continues to scale.

Versant Funding (existing) – An Accounts Receivable facility whereby the company sells its accounts receivables to Versant in exchange for a fee in order to help with cash flow timing. This line has no credit limit and is based on how much of the company's receivables are purchased in a given period.

Purchase Order financing (proposed) - The company is exploring entering into an agreement with a Purchase Order backed facility to borrow against the value of purchase orders the company receives in order to assist with cash flow. The company has received a term sheet for this facility and is in the process of deciding whether to enter into this agreement at this time.

<b>8. Estimated cash available for future operating activities</b>	<b>\$A'000</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(927)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	640
8.3 Unused finance facilities available at quarter end (Item 7.5)	500
8.4 Total available funding (Item 8.2 + Item 8.3)	1,140
8.5 <b>Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	1.23

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: No. Net operating cash outflows continue to decrease QoQ as the business continues to scale up. At the same time the company has been able to keep its fixed expenses flat on a QoQ basis, resulting in a reduction of NOCF each of the last several quarters. The company expects that trend to continue in the upcoming quarters as well.

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes. Candy Club has existing financing relationships with Crossroads Financial, LLC to access working capital against the value of its inventory and Versant Funding, LLC to sell certain Accounts Receivables to accelerate its cash collections cycles. In addition, the company is currently in talks to access additional debt and/or equity financing should it outgrow their existing working capital lines or determine that additional working capital could assist in accelerating growth further. The company is highly confident that it will be successful in accessing additional funds if required to do so.

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. The combination of increasing revenue and gross margins dollars on a QoQ basis, the ability to scale while holding fixed overhead flat, existing financing partnership arrangements and the potential to secure additional financing, if required, give us a high degree of confidence that the company will continue to meet its business objectives.

### 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.

Date: 8/7/20

Authorised by: Justyn Stedwell, Secretary, on behalf of the Board of Directors.  
(Name of body or officer authorising release – see note 4)

### Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow 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 cash flow 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.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.