



29 April 2022

Candy Club delivers record 1Q sales with improved financial performance

Quarterly Activities Report & Appendix 4C for the quarter ended 31 March 2022

- **1Q FY2022 B2B revenue up 16% YoY**
- **Gross margins increased during the quarter to 45% from 38% in 4Q FY2021 and 40% for FY2021**
- **Adjusted NOCF loss improved 78% to -\$0.4m on an operating basis as compared to -\$1.8m in 4Q FY2021 and 75% vs. 1Q 2021**
- **Major national account wins including Rite-Aid and Claire's combined with strong growth from existing accounts**
- **Candy Club has appointed a leading mid-market investment bank to advise the Company of strategic options in the US**

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 March 2022 ("**1Q FY2022**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

In 1Q FY2022, Candy Club continued its focus on profitable growth with the business to business ("**B2B**") segment. The segment's revenue grew double-digits YoY (+16%) to \$3.88 million on the back of multiple initiatives implemented to improve margins and cashflows.

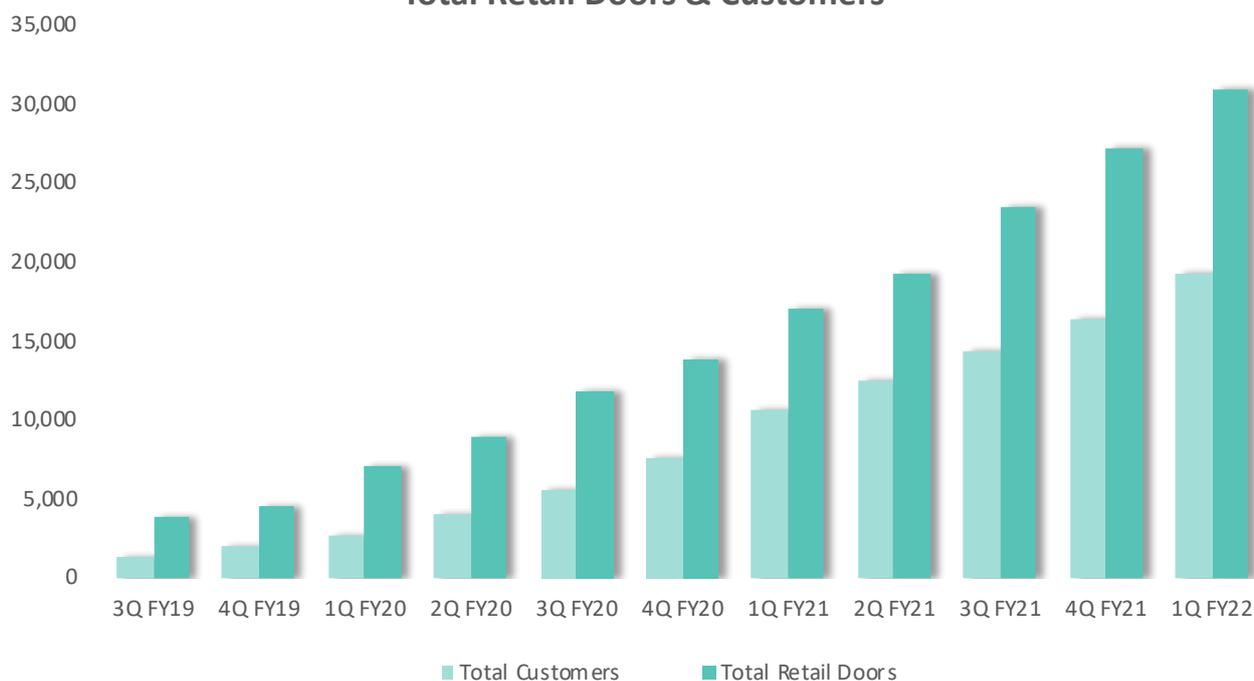
Additional key highlights for 1Q FY2022 include:

- Candy Club gained an additional 3,000 new customers and 3,600 new doors in 1Q FY2022, bringing the total customers and total doors to more than 19,000 and 31,000, respectively.
- 92% reorder rate by the Company's top-25 customers.
- Candy Club remains the #1 top selling confectionery brand on the entire Faire.com platform.
- Under the B2B segment, the Company achieved a Cost-Per-Acquisition ("**CPA**") of \$89, making the customers acquired via paid media profitable on their second shipment.
- Further cost-cutting measures and increased economies of scale in its supply chain.
- EBITDA loss improved by 2% QoQ, despite the lower sales 1Q FY2022 when compared to the Company's largest sales quarter which is driven by seasonal holiday candy purchases.

Operational Performance

Candy Club continued to meet or exceed all its operating KPI expectations in 1Q FY2022. The Company's total number of retail doors continued to grow to more than 31,000 and the number of B2B customers exceeded 19,000 as of 1Q FY2022. Quarterly re-order rates from its top-25 customers once again achieved an impressive 92% on the back of strong demand.

Total Retail Doors & Customers



Candy Club's distribution growth was achieved in both its B2B customer segments where there was an increase in product sales from large regional and national retailers. The Company will be continuing its plan to acquire new customers via the 3rd party e-Commerce platforms.

Candy Club's large regional and national retailers which are acquired and managed by its internal sales team have increased revenue 3x on a YoY basis. This is an amazing contribution to the Company's B2B segment. The successful marketing and sales of new and premium candies to both e-commerce and bricks and mortar customers including various seasonal collections is expected to drive further growth in the future.

Given several recent national account wins, including mega-drugstore chain Rite Aid (ranked No. 150 in the 2020 Fortune 500 list of the largest US corporations by total revenue) and teen-focused accessory and jewellery retailer Claire's, the Company expects the direct selling segment of its B2B business will be on a growth trajectory in the coming quarters as these new and existing accounts continue to scale.

The Company's business-to-consumer ("**B2C**") segment, which consists of both subscriptions and a traditional e-commerce business, remains profitable on a standalone basis given the recent reductions in its customer acquisition expense. Now that this segment is once again viable, Candy Club intends to execute a series of strategic initiatives in late FY2022 to profitably scale this revenue stream further.

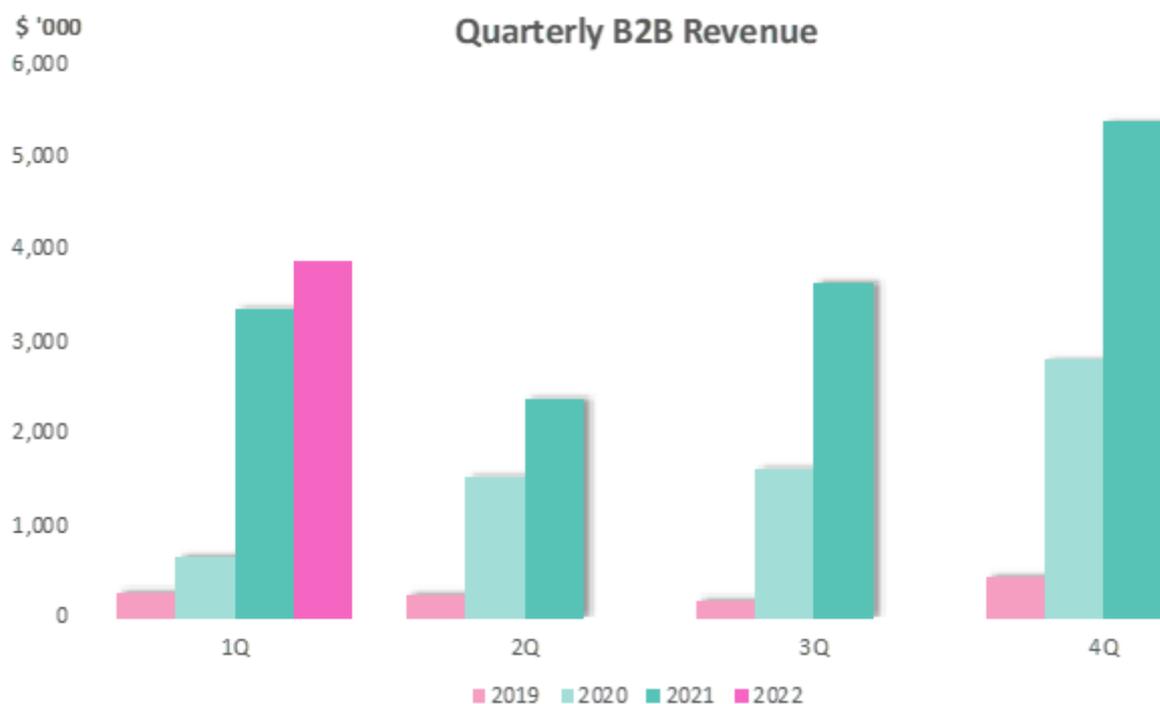
Financial Performance

	4Q FY2021 (actual)	1Q FY2022 (estimate)	QoQ Change	1Q FY2021 (actual)	1Q FY2022 (estimate)	YoY Change
Total gross revenue	\$5.84m	\$4.29m	-27%	\$3.90m	\$4.29m	9%
B2B revenue	\$5.36m	\$3.88m	-28%	\$3.36m	\$3.88m	16%
B2C revenue	\$0.48m	\$0.41m	-15%	\$0.54m	\$0.41m	-24%
Gross margins	38%	45%	+7 ppts	43%	45%	+2 ppts
EBITDA*	-\$0.89m	-\$0.88m	2%	-\$0.99m	-\$0.88m	11%
NOCF**	-\$1.78m	-\$0.40m	78%	-\$1.60m	-\$0.40m	75%

*EBITDA is on an operating basis of the US entity before public expenses.

**NOCF loss of \$400k is on an operating basis for all entities, before the impact of 2021 employee bonuses paid in 1Q FY2022. NOCF loss was \$800k inclusive of all expenses for all entities.

Candy Club achieved \$4.29 million in total revenue in 1Q FY2022, representing a growth of 9% YoY. This is mainly driven by the 16% growth in the B2B segment to \$3.88 million. QoQ, Candy Club saw a drop in total and B2B revenue during the quarter due to seasonality reasons, as 4Q is traditionally the strongest quarter driven by seasonal holiday candy purchases.



Gross margins expanded significantly during the quarter to 45% as compared to 38% in 4Q FY2021 and 43% in 1Q FY2021. Price increases, realizing economies of scale and renegotiating with key vendors drove the margin expansion, despite significant inflationary, supply chain and COVID-19 challenges. EBITDA loss improved 11% YoY and 2% QoQ to -\$0.88m.

With Candy Club’s strong cash management initiatives on inventory, supply chain costs and other operational expenses, the Company saw a substantial improvement in its net operating cash flow (“**NOCF**”). Total NOCF during the quarter recorded a loss of \$0.8m, a reduction of 50% YoY and 55% QoQ. On an operating basis, NOCF loss was down 75% YoY and 78% QoQ when adjusting out FY2021 employee bonuses that were paid in 1Q FY2022.

“The Company is off to a great start in 2022. It achieved double-digit B2B sales growth YoY, expanded gross margins and improved NOCF, despite significant inflationary, supply chain and COVID-19 headwinds. This is a testament to the strength of our brand, strategy and management team’s execution,” founder and CEO Keith Cohn said. “With margins increasing, new product innovations soon to launch and strong existing and new retail customer relationships scaling, Candy Club is poised to see even further growth as 2022 progresses”.

As of 31 March 2021, Candy Club had total current assets of \$13.4 million, including \$4.4 million in cash, \$1 million in accounts receivable, \$6.6 million in inventory and \$1.4 million in other current assets. The Company had total current liabilities of \$4.3 million, including \$1.3 in accounts payable and \$3 million in other current liabilities.

A leading mid-market investment bank has been appointed to advise Candy Club on strategic options in the US.

Additional information

Payments to related parties and their associates during the quarter were \$366,000 which consists of salaries and a 2021 bonus paid for the CEO, Keith Cohn, and one non-executive director, Andrew Clark, for providing additional services beyond the standard scope of his non-executive role, inclusive of a bonus for 2021.

The Company expended cash on operating activities during the quarter as per below:

Use of funds	\$US'000
Research and development	68
Product manufacturing and operating costs	4784
Advertising and marketing	761
Leased assets	25
Staff costs	783
Administration and corporate costs	693
Interest and finance costs paid	149

Authorised by the Board of Directors

Nova Taylor

Company Secretary

Candy Club Holdings Limited

For more information, please contact:

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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) division in the United States of America. Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

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

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

Forward-looking statements

This ASX release contains certain references to forecasts, estimates, assumptions, projections, and other forward-looking statements and statements regarding the intent, belief or current expectations of Candy Club. The words “likely”, “expect”, “aim”, “should”, “could”, “may”, “prospect”, “anticipate”, “predict”, “believe”, “plan”, “forecast” and other similar expressions are intended to identify forward-looking statements. Forward-looking statements, opinions and estimates provided in this ASX release are based on current expectations, estimates and projections about Candy Club’s business and its financial performance and the industry in which it operates. They may also be based on assumptions and contingencies which are subject to change without notice and/or risk factors associated with an investment in Candy Club. These forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors, which are, or may be, beyond the control of Candy Club. These forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from the results, performance or achievements expressed or implied in this ASX release. Events and actual circumstances frequently do not occur as forecast and these differences may be material. Accordingly, investors are cautioned not to place undue reliance on any forward-looking statements contained in this ASX release, which speak only as of the date of this ASX release.

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")

31 MARCH 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,353	4,353
1.2 Payments for		
(a) research and development	(16)	(16)
(b) product manufacturing and operating costs	(2,516)	(2,516)
(c) advertising and marketing	(477)	(477)
(d) leased assets	(24)	(24)
(e) staff costs	(1,445)	(1,445)
(f) administration and corporate costs	(453)	(453)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(225)	(225)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(803)	(803)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 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)		
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities	-	-

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	5,212	5,212
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(803)	(803)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held	25	25
4.6	Cash and cash equivalents at end of period	4,434	4,434

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	4,434	5,212
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,434	5,212

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	366
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<p><i>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.</i></p> <p><i>6.1 Includes payment of wages and salaries, directors fees and consulting fees. The amount this quarter includes a total of \$US195,000 in relation to incentive payments relating to the prior year.</i></p>		

Quarterly cash flow report for entities subject to Listing Rule 4.7B

7. Financing facilities <i>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.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	7,500	7,500
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities		
7.5 Unused financing facilities available at quarter end		0
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.	<p>Venture Lending & Leasing IX Inc. - Candy Club executed a debt facility in April 2021 for up to US \$7.5m of which all US\$7.5 million has been drawn down, with the most recent draw of \$2.5m on November 12, 2021. Under the debt facility, there will be Interest only (12%) payments for twelve (12) months followed by thirty (30) months of principal and interest repayments. The debt facility will rank as first priority lien and be secured by all of Candy Club's assets.</p>	

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(803)
8.2 Cash and cash equivalents at quarter end (item 4.6)	4,434
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,434
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	5.52
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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?	
<p>Answer: Yes. The Company expects to have the cash it requires to meet its operating requirements.</p>	
8.6.2 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?	
<p>Answer: Candy Club have hired US Investment Bank to assist the company in potentially securing additional capital to scale the business further.</p>	

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

Answer: N/A

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 29 April 2022

Authorised by: 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.