



Bubs Australia Limited
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BUBS TO ACQUIRE 100% CNCA APPROVED AUSTRALIA DELORAINE DAIRY C2 CAPITAL PARTNERS TO BECOME CORNERSTONE INVESTOR IN BUBS

Sydney, 1 April 2019: Bubs Australia Limited (**ASX: BUB**) (**Bubs**) today announced it has entered into a conditional sales and purchase agreement to fully acquire infant formula producer Australia Deloraine Dairy (**Deloraine**) in Melbourne, Victoria.

The consideration is A\$25 million in cash and 15,384,615 Bubs shares to the value of A\$10 million, at a strike price of A\$0.65 per share, escrowed for 12 months (**Consideration Shares**). If certain performance targets are met, there will be further payments of up to A\$15 million to the Deloraine vendors, to be paid annually in equal instalments over three years. The Consideration Shares will be equivalent to 3.025% of Bubs Australia's post-transaction issued capital. (See Appendix 2 for further details.)

The Company also announced it has entered into an agreement for a private share placement, also at A\$0.65 per share, to private equity firm C2 Capital Partners (**C2**), which will raise approximately A\$31.44 million, before costs (**Placement**).

Following the Placement, C2 will also acquire additional shares in Bubs via off-market share acquisitions from existing shareholders, the NuLac Foods Vendors, giving it an aggregate 15% holding in Bubs. (See Appendix 1 for further details.) Following the significant capital investment, C2 Managing Partner Steve Lin will join the Bubs Board as a Non-Executive Director. Funds from the capital raising will be used, in part, for the Deloraine acquisition.

Completion of the Placement is conditional on Bubs and the Deloraine vendors satisfying their respective completion obligations in relation to the Deloraine acquisition, except for Bubs' obligation to pay the \$24 million completion cash payment (which will be satisfied out of the Placement funds). Completion of the off-market share acquisitions is conditional on the Placement completing.

Acquisition of Australia Deloraine Dairy – CNCA approved infant formula manufacturing facility

Deloraine is one of only 15 licenced canning facilities in Australia authorised by the Certification and Accreditation Administration of China (CNCA) for physical importation into China under regulatory requirements administered by State Administration for Market Regulation (SAMR).

Deloraine submitted three technical applications between October 2017 and March 2018, for goat milk infant formula, organic cow milk infant formula and conventional cow milk infant formula with sn-2 palmitate (OPO).

Bubs first entered a manufacturing agreement with Deloraine in June 2018 to produce Bubs® goat milk infant formula and CapriLac® goat milk powder products. Its state-of-the-art facility meets Bubs rigorous compliance measures for product integrity and quality control. The facility also adheres to the highest



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standards set out by Dairy Food Safety Victoria, Department of Agriculture, CNCA, HACCP, ISO and other stringent quality-assurance protocols.

The plant has the capacity to process 10 million tins with its existing production line and could double capacity with incremental capital expenditure in the future, if required.

Commenting on the acquisition of Deloraine, Bubs Australia Founder and Chief Executive Officer, Kristy Carr said: "This is a key foothold in Bubs vertical-integration strategy to maximise control of our supply chain and represents an important step in our vision to expand our China business.

"Importantly, the acquisition will have a significant positive impact on our business through a material reduction in our production costs, as well as placing Bubs in the best possible position to achieve SAMR brand registration to enable the Company to export their infant formula products to China to be sold in physical Mother and Baby stores.

"The planned integration of Deloraine underpins Bubs unique competitive advantages deriving from authentic provenance, including 100% Australian goat milk with full traceability back to farm gate, and scalable capacity to increase volume to meet growing future demand.

"We believe this is a win-win all round - for Bubs and Deloraine's customers, suppliers, relationship partners and employees alike. In the meantime, we don't intend to change any material aspect of the Deloraine business or the customers it already serves. Deloraine's principal and general manager will continue the day-to-day management of the business as a full-time employee of Bubs," said Mrs. Carr.

C2 Capital Partners investment in Bubs

C2 was established in 2018 to invest in companies capitalising on the consumption growth and consumption upgrade of the growing Chinese middle class. Adopting a long-term partnership model with the management of investee companies, it provides value-added growth capital. C2 intends to support companies with unique China market insights and know-how including, but not limited to, logistics, branding, marketing, omni-channel sales and distribution, and last mile delivery.

Bubs Australia Chairman, Dennis Lin, said: "We are honoured to welcome C2 Capital Partners to our register, and Steve Lin to our Board. Steve brings to the Board his wealth of experience in Asia which will undoubtedly enhance Bubs growth prospects in China and the region.

"As well, acquiring Australia Deloraine Dairy provides us with a strategic advantage through the vertical integration of our value chain – a critical factor for success in the infant formula market, particularly for Australian brands seeking to enter China," Mr. Lin said.

C2's Managing Partner, Steve Lin, said: "We have been very impressed with the important milestones that Bubs has achieved in Australia and China. We see great potential in China for Bubs, an authentic Australian brand that is building on a sophisticated vertically integrated supply chain and high-quality and



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trustworthy infant nutrition product portfolio. We are pleased to partner in its financial underpinning and look forward to contributing impactful strategic value.”

Use of Funds

The proceeds of the Placement will be apportioned A\$25 million towards the Deloraine acquisition and approximately A\$6 million growth capital to accelerate China market development and brand marketing, particularly in relation to Bubs proposed joint venture with Beingmate Baby & Child Food Co., Ltd (as announced on 6 March 2019).

Following the release of this announcement, Bubs has requested that trading of its shares be reinstated.

Board Changes

Steve Lin

Steve Lin, Managing Partner of C2 Capital Partners, will join Bubs Board in the role of Non-Executive Director effective immediately following completion of the Placement.

Mr. Lin has over 25 years of investment, operations and management experience in Asia. He started his career in investment banking at Morgan Stanley in New York. He then joined Goldman Sachs' Merchant Banking Division in Hong Kong and Tokyo and invested in private equity, real estate and special situations opportunities. Mr. Lin became the President and CEO - Asia of GMAC Commercial Holding Corp., managing a multi-billion dollar portfolio of real estate investments and loans. Thereafter, he co-founded a non-profit organization, Hands On Tokyo, joined Laureate Education as President and CEO - North Asia, and served on the board of two universities in China. Mr. Lin has a B.A. in Economics from Harvard College.

John Gommans

Bubs advises that John Gommans will retire from the Board of Bubs following completion of the off market share transfers by John Gommans, Penelope Gandar, Catherine Taylor, and Rupert Soar (the **NuLac Foods Vendors**) to C2.

The NuLac Foods Vendors remain in the Top-10 of the Share Register. Mr. Gommans will remain a key adviser to the Company, advising on the goat dairy landscape and working with management to actively expand Bubs' Australian and New Zealand goat milk pool. There will be no change to the existing Milk Supply Agreement or Toll Processing Agreement with the companies owned by the NuLac Foods Vendors.

END



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About Bubs Australia Limited (ASX: BUB)

Founded in 2006 in Sydney, Bubs Australia is engaged in the business of inspiring new generations of happy, healthy bubs through its range of premium infant nutrition products. Bubs® speciality infant formula and organic baby food, cereals and toddler snacks cater for all feeding occasions and stages of development from newborn to preschool.

Bubs Australia is the leading producer of goat dairy products in Australia with exclusive milk supply from the largest milking goat herds in the country. Bubs® is proudly the only infant formula in the world to be based on 100% Australian goat milk.

Products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to New Zealand, China, South East Asia, and the Middle East.

Consumer Website: **bubsaustralia.com**

Investor Centre: **investor.bubsaustralia.com**



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Appendix 1: Capital Raising and Placement

The Company has entered a subscription agreement with C2 Capital Partners to raise approximately A\$31.44 million (before costs) at \$0.65 per share.

The Placement to C2 will result in the issue of 48,366,888 fully paid ordinary shares in Bubs Australia. The Placement utilised Bubs' existing placement capacity under ASX Listing Rule 7.1 and it is therefore not conditional on shareholder approval. Settlement of the Placement is conditional on the Company and the Deloraine vendors satisfying their respective completion obligations in relation to the Deloraine acquisition, except for the Company's obligation to pay the \$24 million completion cash payment (which will be satisfied out of the Placement funds). Completion of the Deloraine acquisition and the Placement is expected to occur in mid-April 2019. The new shares issued under the Placement will rank equally with existing shares in the Company.



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Appendix 2: Terms of the Australia Deloraine Dairy Acquisition

Bubs has entered into a conditional Sale and Purchase Agreement with Dynamic Best Group Limited, Stable Charter Limited and Succeed Venture Limited (the **Deloraine Vendors**) to acquire 100% of Australia Deloraine Dairy Group Limited, a company incorporated in the British Virgin Islands.

The consideration for the proposed acquisition comprises:

- A\$1 million cash deposit to be held by an escrow agent from signing of the sale agreement, which is only to be released to the Deloraine Vendors if completion of the proposed acquisition takes place or otherwise does not take place because of a default by Bubs;
- A\$24 million cash amount (less any shareholder loans outstanding at completion) payable to the Deloraine Vendors at completion of the proposed acquisition and a deferred payment of up to A\$15 million payable over a three-year period if certain performance targets are met; and
- 15,384,615 fully paid ordinary shares in Bubs (**Consideration Shares**).

The Deloraine Vendors have agreed that the Consideration Shares will be held in voluntary escrow for a period of 12 months after the date of completion of the proposed acquisition. During this time, the Deloraine Vendors will not dispose of any Consideration Shares except:

- in customary circumstances (including to accept an offer under a takeover bid); or
- to transfer the Consideration Shares to a relative, provided the relative enters into an escrow arrangement on the same terms.

Payment of the deferred payments totalling up to A\$15 million under the sale and purchase agreement are conditional on satisfaction of certain KPI's. A\$5 million will be payable to the Deloraine Vendors in respect of the first year following completion of the proposed acquisition, if in respect of that year:

- Jason (Yulin) Qi is continuously employed by Deloraine or its subsidiary; and
- the consultancy agreement between Bubs and Weiwen Zhu is not terminated.

Equivalent payment obligations apply on the same terms in respect of the second and third year after completion of the proposed acquisition.

The proposed acquisition is subject to a number of conditions, including:

- the Consideration Shares being approved for official quotation on ASX;
- the termination of an organic brand contract between Deloraine and GuangZhou Qianqin Technology Co Ltd and associated termination costs being paid by Weiwen Zhu;
- the termination of the brand slot contract between Deloraine and Yuhong Ye and entry by Australia Deloraine Dairy Pty Ltd, Deloraine's subsidiary, into an agreement on similar commercial terms with respect to registering a brand slot, as well as a product sales agreement on customary terms; and
- Jason (Yulin) Qi signing an employment contract with Bubs for a term of at least 12 months.

Subject to the satisfaction of the conditions, completion is expected to occur in mid-April 2019.