

ASX: BUB  
Bubs Australia

bübs®

**LIFTING OFF**

INTO GLOBAL GROWTH

**FY20 Full Year Results Presentation**

31 August 2020

2020



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Unless otherwise stated, all dollar values are in Australian dollars (\$) or A\$). A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Presentation are subject to the effect of rounding.

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# Growing Generation Joy™



# Creating new generations of happy, healthy bubs<sup>®</sup>

## GOODNESS

We believe in wholesome, healthy food and a positive approach to life.

## HONESTY

We believe in 100% transparency, this is 'clean' food from a brand you trust.

## VERY BEST

We believe in being thorough and uncompromising, sticking to our ethics no matter what.

## PLAYFULNESS

We believe in the joy of family time, the pleasure of sharing happy moments and being together.

# FINANCIAL PERFORMANCE





# FINANCIAL HIGHLIGHTS

FY20 results were driven by the strong performance of **Bubs<sup>®</sup> Infant Formula** in all retail channels and regions.

**\$62m**  
Group Gross Revenue<sup>1</sup>

**+32%**  
Group Gross Revenue<sup>1</sup> pcp

**+32%**  
Direct sales to China growth pcp

**55%**  
Infant Formula Share  
Group Gross Revenue<sup>1</sup>

**5x**  
Export sales growth pcp to  
emerging markets outside of China

**+69%**  
Infant Formula Gross  
Revenue<sup>1</sup> growth pcp

**\$26m**  
Cash reserves as at  
30 June 2020

<sup>1</sup>Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

# FINANCIAL OVERVIEW

	<b>FY20 (\$m)</b>	<b>FY19 (\$m)</b>	<b>% change</b>	
<b>Gross revenue<sup>1</sup></b>	61.7	46.7	32%	Normalised gross margin <sup>2</sup> improved from 21% to 24%.
<b>Revenue</b>	54.6	43.9	24%	
<b>Normalised gross margin<sup>2</sup></b>	24%	21%	14%	<ul style="list-style-type: none"> <li>• Effective OPEX management                             <ul style="list-style-type: none"> <li>- FY20 Distribution costs / Net revenue % at 3% remains consistent with prior periods.</li> <li>- FY20 Employee costs<sup>3</sup> / Net revenue % at 11% to build organisational capability to support continued growth.</li> <li>- FY20 Marketing / Net revenue % at 18% supporting brand awareness and brand equity build in domestic and China marketing, where benefits will be realised in subsequent years.</li> <li>- FY20 Administration and other costs<sup>4</sup> down 20% pcp.</li> </ul> </li> </ul>
<b>Operating expenses (OPEX):</b>				
<b>Distribution</b>	1.9	1.5	27%	
<b>Marketing</b>	9.9	4.1	141%	
<b>Employee costs</b>	5.8	4.8	21%	
<b>Admin &amp; other</b>	4.0	5.0	-20%	
<b>Normalised EBITDA loss</b>	9.1	5.7	66%	
<b>Statutory EBITDA loss</b>	11.3	34.0	-67%	

<sup>1</sup> Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

<sup>2</sup> Normalised gross margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Normalised gross margin is calculated as (Revenue – Production Costs) / Revenue. Revenue excludes one off discount to CapriLac<sup>®</sup> old packaging adult powder products (\$1.6m).

<sup>3</sup> Employee costs do not include share based payments and Nulac acquisition employee benefits costs.

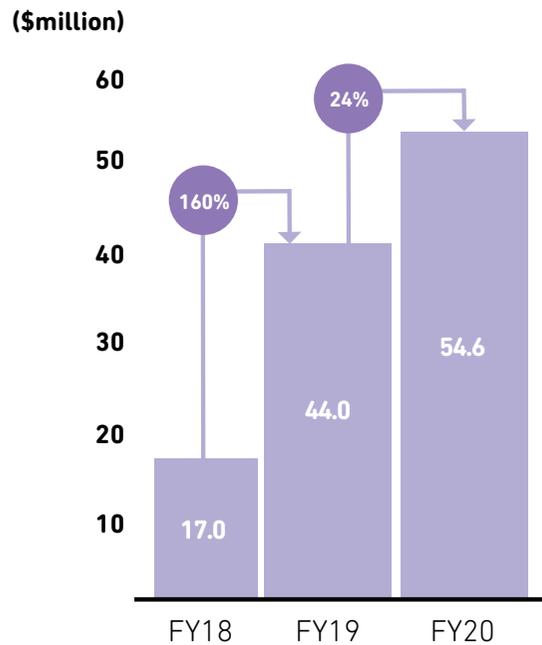
<sup>4</sup> Administration and other costs do not include depreciation and amortization.

# FY20 GROUP FINANCIAL REVIEW

Strong growth across core products and all regions.

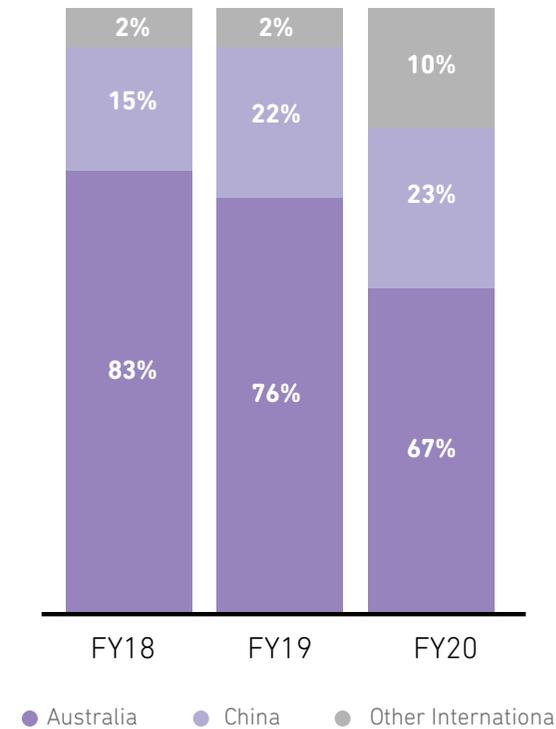
## GROUP REVENUE GROWTH

Continued strong growth year on year.



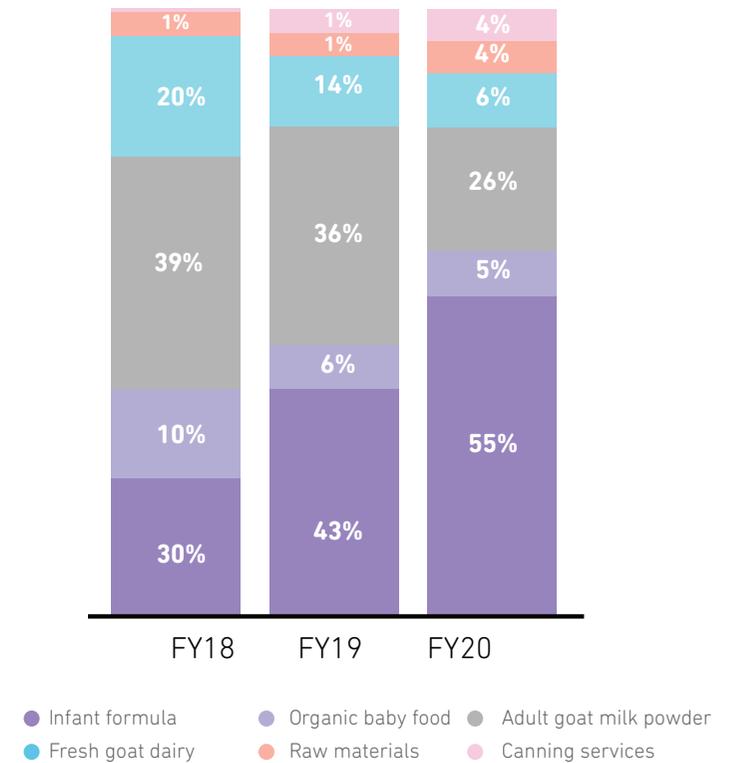
## REGIONAL CHANNEL MIX

Increasing market diversification.



## BALANCED PRODUCT MIX

Ability to allocate milk flow into multiple brands, product categories, and consumer segments.



# FUELLED BY STRONG INFANT FORMULA GROWTH

Infant Formula sales delivered **+58% pcp.**

## KEY HIGHLIGHTS

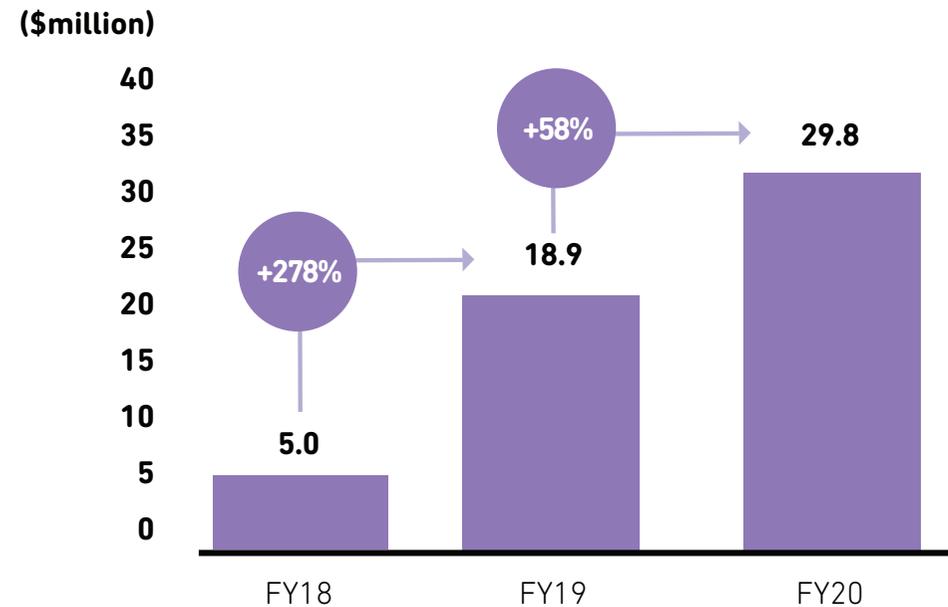
Strengthened focus on highest margin products within group portfolio.

Contribution share of **Infant Formula increases from 30% to 55% over two years.**

Infant Formula revenue \$29.8m; +58% pcp driven by:

- Strong growth in domestic retailers; Coles, Woolworths and Chemist Warehouse
- Junior Nutrition innovation
- Expansion into Vietnam market

Bubs® Infant Formula Revenue



# INCREASING MARKET DIVERSIFICATION

Growth driven from Domestic Retailers, China & Vietnam.

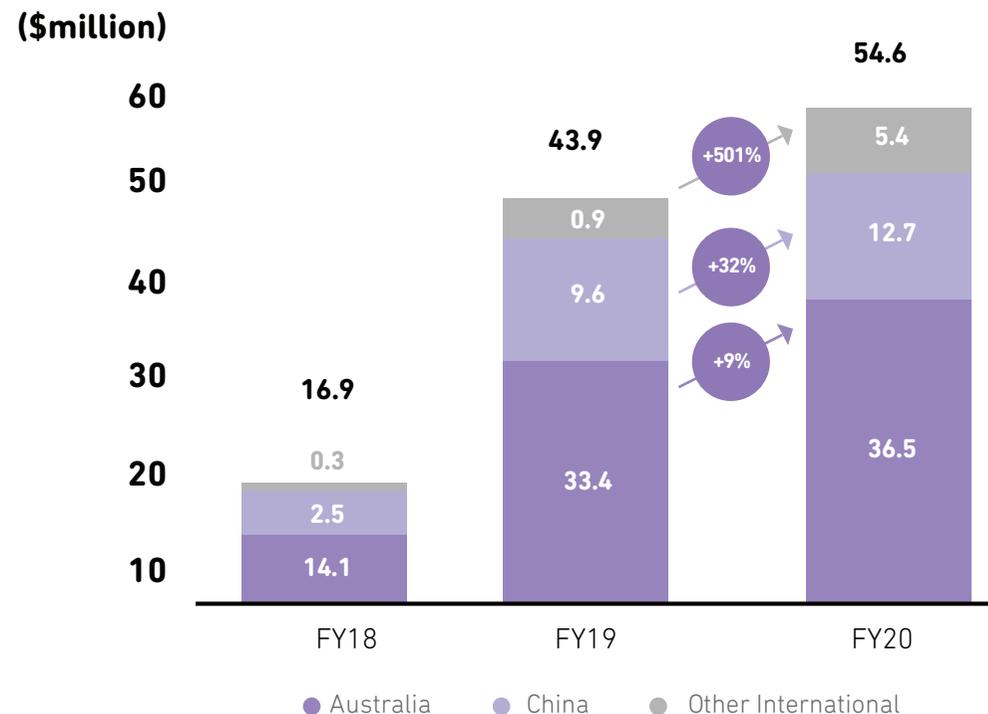
## KEY HIGHLIGHTS

With strengthened focus on expanding distribution in the domestic market, **domestic retail gross revenue<sup>1</sup> growth increased 270%** in 4Q FY20 pcp, which was offset by Q4 disruption to Daigou channel.

With increased marketing investment, **direct export sales to China increased +32% pcp**, representing 23% of Group gross revenue.

Continued penetration in **emerging international markets** delivering **greater than five times growth**, mainly driven by Vietnam launch.

Revenue by Market



<sup>1</sup>Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution.

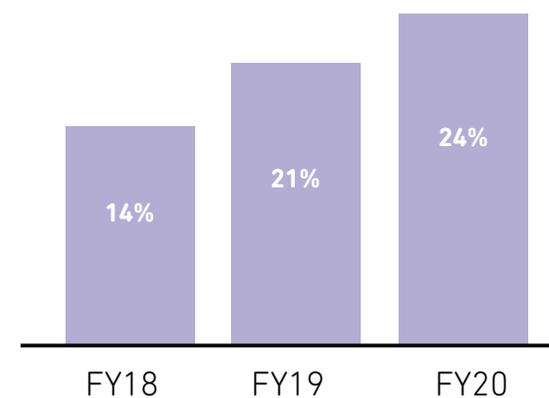
# GROSS MARGIN IMPROVEMENTS

Normalised gross margin<sup>1</sup> improved from 21% to 24% despite expanded footprint in domestic retailers.

## KEY INITIATIVES FOR FURTHER IMPROVEMENTS

- Enhancing product mix with strengthened focus on highest margin products – Infant Formula.
- Infant Formula price increase from May 2020.
- Improved supply chain costs due to scale and management initiatives back to farm gate.

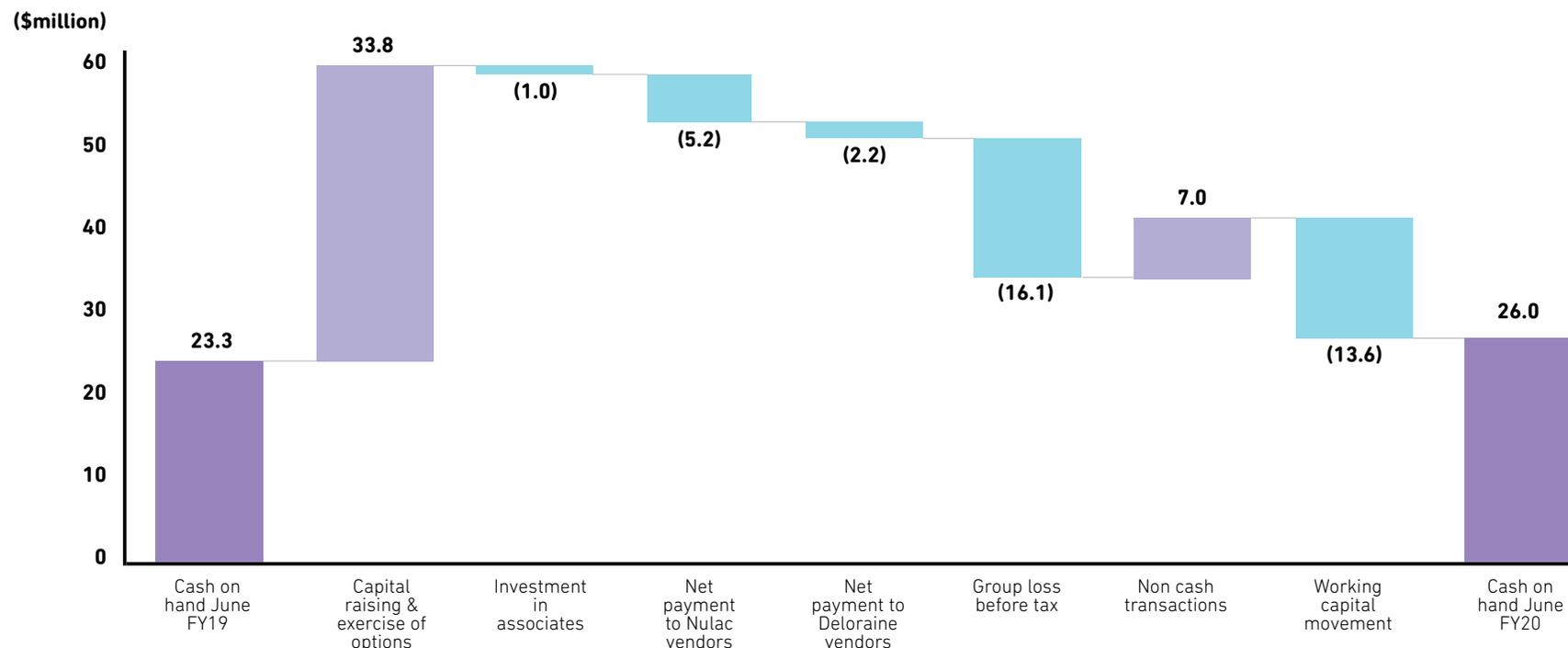
Normalised Group Gross Margin<sup>1</sup>



<sup>1</sup>Normalised gross margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Normalised gross margin is calculated as (Revenue – Production Costs) / Revenue. Revenue excludes one off discount to CapriLac<sup>®</sup> old packaging adult powder products (\$1.6m)

# WORKING CAPITAL

With a strong balance sheet and cash position we retain the flexibility to execute our growth strategy.



Working capital movement is driven by increased inventory position:

- Increased finished goods position is in line with strong end consumer demand.
- Increased raw materials (including bulk powder) to carry a higher level of inventory to protect potential supply chain disruption in the challenging conditions under COVID-19.
- With the long remaining useful life of raw materials, management has been taking initiatives to utilise the raw materials on hand in FY21 combined with continually evaluating demand forecasts and the milk pool allocation to ensure milk supply is managed appropriately as required. These initiatives are expected to result in a significant cashflow saving in 2H FY21.

# COVID-19 IMPACT



## Consumer Behaviour & Consumption Channels

**Significant pantry stocking** brought forward demand. Australian domestic consumption from local consumers now returning to pre-COVID levels.

**Increasing demand** evident in China for brands manufactured in China for Chinese babies. Australian consumers also demanding more Australian made products.

**Channel shifting towards** Cross Border e-Commerce (CBEC) China sales growing and strategic partnership with Alibaba strengthening.



## Supply Chain Resilience

**As an essential service**, there was no disruption to production or material impact to supply chain over the period.

**Fluctuating demand surges** managed at Deloraine with ability to rapidly increase production.

**Vertical integration model** and local procurement policy provided control and flexibility in supply chain.



## Regulatory & Market Access

**Temporary closure of borders** to Chinese tourists and students, as well as rising cost of airfreight and prolonged delivery lead times has impacted Daigou domestic sales.

**China SAMR regulatory process** continues to be delayed.

**Market access for SAMR brands** manufactured and registered in China is continuing and provides most favourable route to market. Opportunity to continue to leverage strategic partnership with Beingmate in China via Joint Venture to locally manufacture approved SAMR Chinese label products.



## People & Culture

**Additional health and safety measures** put in place across production floor and flexible remote working.

**Agile and responsive culture** enabled quick redeployment of team resources in response to changing channel and marketing dynamics, and acceleration of 24/7 production to fulfil sudden surges in demand driven by pantry stocking.

# STRATEGIC ROADMAP



5  
02

# BUILDING ON SOLID FOUNDATIONS TO ACCELERATE GLOBAL GROWTH

Since listing Bubs has become Australia's leading producer of goat dairy and one of the fastest growing infant formula brands. Bubs is well positioned to become a major global consumer food business spearheaded by infant nutrition and underpinned by a unique goat dairy supply chain.



## MAXIMISE BRAND EQUITY GROWTH

Building brand equity and awareness to increase market share in all key markets.

Bubs is an authentic trusted brand with unique proposition operating in an attractive high growth market.



## OPTIMISE GOAT DAIRY LEADERSHIP

Optimise supply chain integration and capability to drive efficiencies and improve margins.

Clear market leader in goat dairy production with supply chain security and scalability.



## DRIVE INNOVATION

Drive consumer led innovation in emerging and adjacent categories.

Ownership of registered manufacturing facility with impeccable R&D, QA and manufacturing capabilities.



## LEVERAGE STRATEGIC PARTNERSHIPS

Accelerate market access into China via localised manufacturing of SAMR product.

Strategic collaborative partners with industry giants in key markets.



## ACCELERATING GLOBAL REACH

Rapid growth of global expansion driving brand equity across all key markets.

Domestic retail distribution strength across all major retailers.

# OUR BRANDS

Our portfolio of brands is led by Bubs®, our hero brand and the catalyst for value creation across the business.



Our goat dairy specialist brands: CapriLac®, Deloraine® and Capela® optimise brand equity value conversion from our milk pool.



# ONE BRAND, MULTIPLE FEEDING OCCASIONS

**Bubs® caters for all feeding occasions** throughout a child's development. Bubs® is a brand driven by its core – centered around children's nutritional needs in key consumption occasions.



VITAMIN & MINERAL SUPPLEMENTS



GOAT INFANT FORMULA



SNACKS



COW INFANT FORMULA



CEREAL



JUNIOR NUTRITION



POUCHES

## BUILDING BUBS<sup>®</sup> BRAND EQUITY ON A GLOBAL STAGE

**Introducing Jennifer Hawkins, Bubs<sup>®</sup> Global Brand Ambassador** – providing influence, relevance and global reach as high profile Australian icon for millennial parents.

**Underpinned by a range of local key opinion leaders** and health care professionals amongst the mother and baby category.



**+43m**

total reach achieved over first phase of consumer public relations campaign<sup>1</sup>



鲍秀兰医生

35M Followers  
Ding Xiang Doctor



年糕妈妈

30M Followers  
Nico Mama



小小包麻麻

10M Followers  
Xiaoxiaobao Mama



Karena Tonkin  
Paediatric Nutritionist

<sup>1</sup> Pulse PR Media Post Campaign Report August 2020

# OPTIMISING **SUPPLY CHAIN**

**Bubs unique vertical integration model** continues to be our foundational strength.



# No.1

Australia's largest  
goat dairy producer

## UNIQUE SUPPLY CHAIN MODEL

Our secure supply chain integrating farm to production, provides traceability, scalability and flexibility.

## SCALABLE MANUFACTURING

100% ownership of Australia Deloraine Dairy, holder of only 1 of 15 CNCA accredited infant formula China manufacturing licences in Australia.

## UNDERPINNED BY GOAT DAIRY DOMINANCE

Bubs is the market leader in goat dairy across Australia and has exclusive access to its goat milk pool.

# GOAT DAIRY INNOVATION HIGHEST AND BEST USE OF GOAT MILK POOL

Our **innovation growth pillars** around which we continue to enrich and expand our **goat dairy portfolio**.



High margin adjacent categories

**Respond quickly to emerging consumer trends** in Mother & Baby/Children nutritionals. Includes new formulated Goat Milk chewable vitamin tablets.



Extend brand lifecycle beyond infants

**Expand into diversified nutritional needs** for older children and increase basket size of existing consumers.



New consumption occasions

**Respond to consumer trends** for convenient out-of-home single serve sachets and new packaging formats.



Grow broader adult goat dairy consumer usage

**Target multiple adult consumer segments** with differentiated products to support functional health needs.



# CONSUMER LED INNOVATION HIGH MARGIN ADJACENT CATEGORIES

## Introducing Vita Bubs™

Vita Bubs™ is Australia's complete children's nutrition specialist brand, created by an Infant Formula expert. The range has been strategically developed to provide seamless integration across Bubs current marketing channels and leverages our product development strengths in infant and children's nutrition.

Launching across 400 Chemist Warehouse stores in October 2020

Chemist Warehouse is Australia's largest pharmacy retailer, and responsible for more than half of the total **\$2.3bn**<sup>1</sup> retail sales across the total Vitamin and Mineral Supplements (VMS) Australian category. China VMS category sales are estimated to be **\$20-\$30bn**<sup>1</sup>



CONCEPTS ONLY.

<sup>1</sup> Euromonitor Data 2019 and expert interviews.

# GLOBAL GROWTH STRATEGY



# CHINA REMAINS KEY FOCUS LEAD EXPORT MARKET

**China is our primary export market** with the highest growth potential for Goat Infant Formula as the fastest growing market segment.

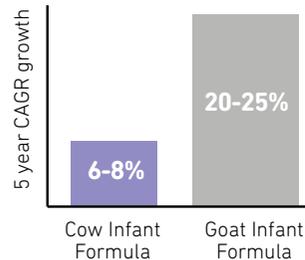


## GOAT MILK FORMULA

Goat Milk Formula is expected to grow 20-25% year on year, growing 3x faster than Cow Milk Formula.<sup>1</sup>

Limited global goat milk supply creates barriers to entry for new market entrants.

**~20-25%** Growth, YoY. **x3** faster growth than Cow Milk Formula.



<sup>1</sup>Euromonitor 2019 & expert interviews.

## MARKET SIZE

**>60%** **\$55bn**

of the world's Goat Milk Infant Formula is consumed by China, with a majority coming from imported brands.

China is the largest and fastest growing Infant Formula market in the world, valued at >A\$55bn.<sup>1</sup>



## UNIQUELY POSITIONED

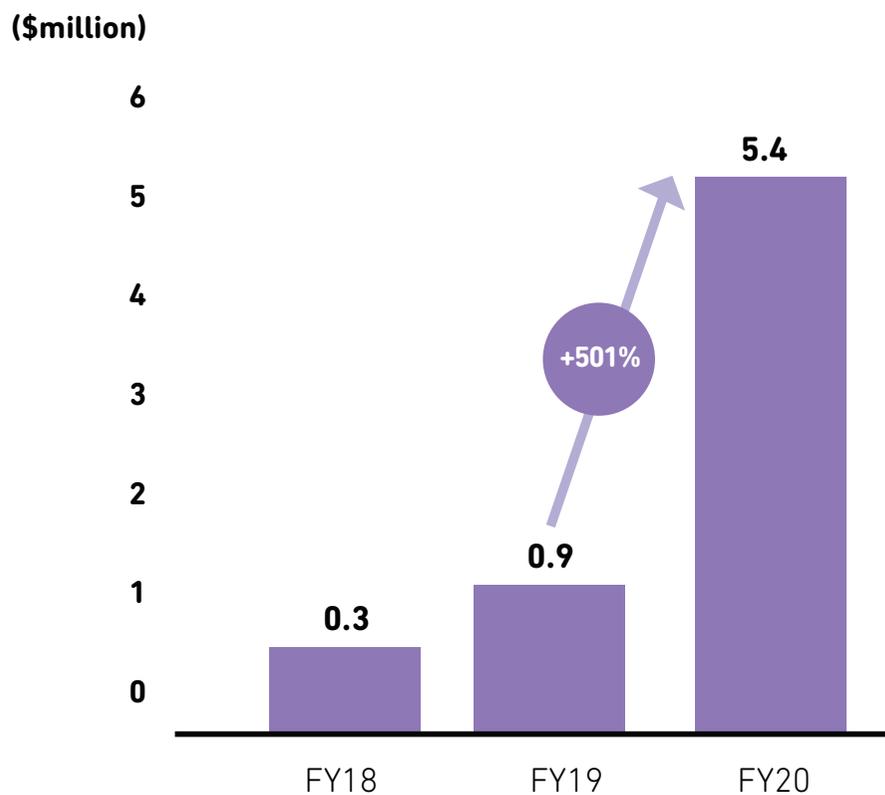
Bubs® is uniquely positioned to capitalise on the premiumisation trend as the only Infant Formula in the world sourced from **Australian goat milk.**



# EXPORT MARKETS BEYOND CHINA

**Already delivering strong international growth** to mitigate China dependency risk.

## Other International Revenue



### New Market Launches in FY20:

- Vietnam
- Hong Kong

### New Market Launches planned for Q2 FY21:

- Malaysia
- Middle East



## CHINA CBEC GROWTH

**+90%**

Bubs® Q4 FY20  
Alibaba growth pcp<sup>1</sup>.

- **China consumer demand remains strong** with channel shifting in purchasing behaviour to CBEC in Q4 FY20.
- **Outbound Daigou Channel temporarily constrained** due to reduced Chinese students and tourists, and disruption to international logistics.
- **Increased focus and redirection of investment to growing CBEC Channel** capability and brand awareness in-market.

<sup>1</sup>Combined Alibaba platforms: Tmall and Taobao sales compared with prior period.

## BARRIERS TO ENTRY FOR CHINA GENERAL TRADE INCREASING

- **Regulatory constraints increasing.**  
China infant formula market is consolidating due to tightening regulations.
- **Macro-environment restraining approvals.**  
International brands experiencing long lead-times for regulatory approvals.
- **Consumer need for trust growing.**  
Increasing China consumer demand for brands that demonstrate local relevance.
- **Growing demand for in-market manufacture.**  
Renewed pride in locally manufactured products tailored for Chinese babies.



# PIVOTAL “CREATED BY BUBS®” BREAKTHROUGH LOCALISATION STRATEGY



Concept label only.

**Bubs® and Joint Venture partner Beingmate enter a Memorandum of Understanding** to manufacture Bubs® China label Goat Infant Formula locally in China, at one of Beingmate’s registered facilities.

**Bubs® intends to acquire an ownership interest in Beingmate’s facility** located in Beihai China, and secure exclusive use of a SAMR approved brand slot.

**Bubs® provides Australian Goat Milk source and retains IP**  
Full ownership of new proprietary Bubs® SAMR formulation, developed specifically for Chinese babies, made from 100% Bubs® Australian Goat Milk source.

**Bubs® secures faster route-to-market for SAMR**  
Beingmate to assist in formulation development and gaining China SAMR approval for new China manufactured product.

**Bubs® shelf presence to expand in mother and baby stores**  
New SAMR Stage 1, 2 and 3 Bubs® China label product manufactured at Beingmate, together with already approved Bubs® Junior China label product to gain access across Beingmate’s 30,000 Mother & Baby store network, especially in lower tier cities.

**Bubs® to continue to pursue Australian manufactured SAMR registration**  
Bubs® to withdraw current SAMR applications with Deloraine and resubmit new application for super-premium Australian manufactured product to respond to new regulations, expected to be published in the near future.

# "CREATED BY BUBS®" PROVIDES CLEAR PATH FOR GLOBAL BRAND EXPANSION

Our localisation strategy can be applied to other jurisdictions in the future to accelerate the Company's global expansion into sizeable markets where similar barriers to access exist.

**RAPID GLOBAL GROWTH OF BUBS® BRAND EQUITY BUILT ON PROVENANCE  
AND FORMULATIONS SPECIFICALLY TAILORED FOR LOCAL CONSUMERS**



**"Created by Bubs®"**  
and made in local market with Bubs® Australian Goat Milk.

# OUTLOOK



04

# OUTLOOK

**Long-term ambition to become a major global food business, spearheaded by the best Australia has to offer in infant nutrition and underpinned by a unique goat dairy supply chain.**

- Bubs® continues to have a **comprehensive global expansion strategy** for rapid growth of Bubs® brand equity that goes deep into our core.
- Our **“Created by Bubs®” localisation manufacturing strategy** to support accelerated global growth and fill the gap for specialised and targeted formulations for local consumer needs.
- Central to this rapid growth potential, is the core strength of Bubs® **Australian Goat Dairy provenance** and **vertically integrated supply chain**.
- Anticipate continued **strong partnerships** with our key strategic partners, providing the agility to respond to changing market conditions.
- **Bubs® Infant Formula to remain the engine** for long-term profitable growth of the business.
- However, uncertainty surrounding long-lasting impact of COVID-19, and impacts on consumers and channel preferences, will likely continue for the first half of FY21.



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