28 October 2020

Candy Club achieves record B2B revenue for September and 3Q 2020; projects record October and FY2020 YoY growth in excess of 5x

Quarterly Activities Report & Appendix 4C for the quarter ended 30 September 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 September 2020 ("**3Q FY2020**").

Candy Club continued to perform well amid the extremely challenging operating environment in the US, which continues to be impacted by the COVID-19 pandemic, widespread civil unrest and the worst wildfires in 18 years.

Despite these significant headwinds, the Company continued to demonstrate strong year-on-year (“**YoY**”) revenue growth in the business-to-business (“**B2B**”) segment during the quarter. This further justifies the Company’s decision to pivot the business to focus on B2B segment in September 2019.

Candy Club expects this growth trajectory to continue with a stronger 4Q FY2020 as the Company foresees a record October of US$1.1 million in B2B revenue.

Financial Highlights

	3Q FY2019 *(actual)*	2Q FY2020 *(actual)*	3Q FY2020 *(actual)*	QoQ Change	YoY Change	Oct FY2020 *(estimate)*
Total gross revenue	US$0.88m	US$2.35m	US$2.18m	-7.2%	146.8%	US$1.30m
B2B revenue	US$0.20m	US$1.58m	US$1.64m	3.8%	726.2%	US$1.10m
B2C revenue	US$0.68m	US$0.77m	US$0.54m	-29.7%	-21.4%	US$0.20m
Gross margins	41.0%	41.4%	43.3%	1.9 ppts	2.3 ppts	43.0%
EBITDA	-US$0.98m	-US$0.56m*	-US$0.61m	8.9%	-37.9%	< US$0.10m
NOCF	-US$1.47m	-US$0.93m	-US$1.90m	104.9%	28.8%	N/A

** variance from 2Q 4C due to non-cash post-audit adjustments.*

Note: Figures in value and percentages tabulated above may not add up due to rounding.

Key highlights include:

- Total gross revenue for the quarter was marginally lower quarter-on-quarter (“**QoQ**”) at US$2.2 million due to seasonality and a softer business-to-consumer (“**B2C**”) segment. On a YoY basis, the total gross revenue grew 2.5x compared with 3Q FY2019. Gross margin improved YoY to 43.3%.
- The B2B segment recorded revenue of US$1.6 million in 3Q FY2020, representing a 726.2% increase over 3Q FY2019. Importantly, Candy Club also resumed shipping its products to prominent national retailers during the quarter after the “shelter-in-place” order was lifted.
- The Company’s total number of retail doors exceeded 11,700 in 3Q FY2020, while the number of B2B customers grew to almost 6,500. Re-order rates were strong at 90%.

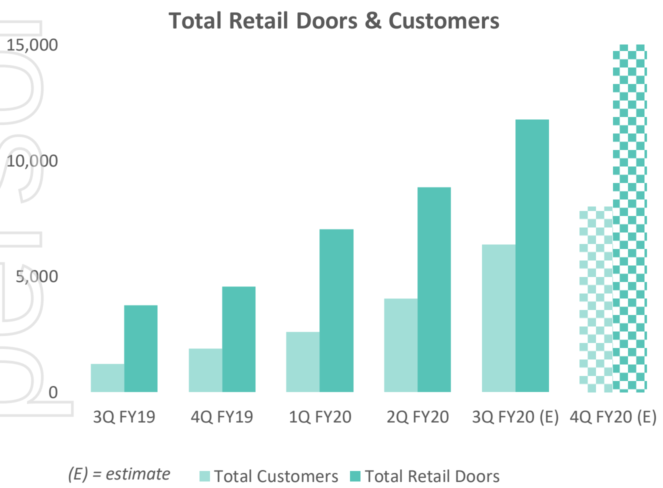
- B2B segment revenue will exceed US$1.1 million for October, which is usually a seasonally stronger month, surpassing the Company's previous high in September. This represents a multiple of 5x of FY2019's B2B revenue.
- Candy Club had previously stated in guidance that it would be EBITDA-positive in 4Q FY2020. The Company would have achieved this milestone in October, but instead the Company made a strategic decision to incur new incremental expenditures as part of its investments to support and accelerate growth in the B2B segment. Even with these incremental expenditures, EBITDA loss is projected to improve significantly, by more than 50% QoQ, and will continue to improve in FY2021.
- Net operating cash flow ("**NOCF**") increased by nearly US$1 million QoQ to -US$1.9 million as the Company grew its inventory balance to meet the increasing sales demand in 4Q FY2020. The increase was primarily funded by its inventory financing facility.
- Candy Club has a well-defined roadmap for FY2021 growth initiatives that the Company's management and the board believe will drive significant growth and shareholder value.

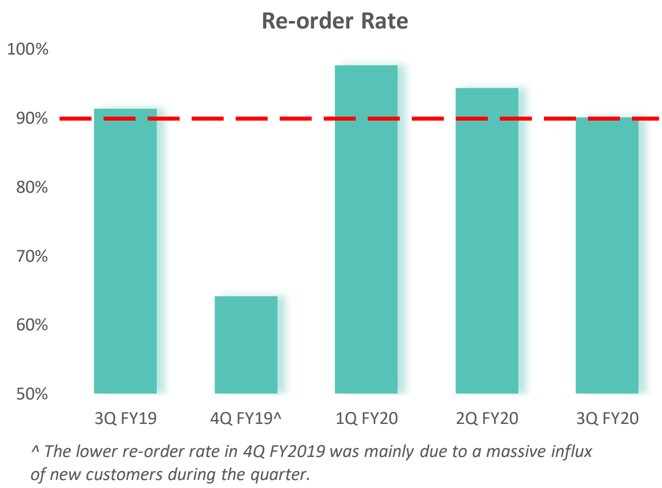
Operational Performance

Despite the challenging operating environment in the US, Candy Club's key B2B segment remained strong in 3Q FY2020. The Company's B2B segment achieved record revenue of US$1.64 million for the quarter and had its record month in September of US$721,000.

On a YoY basis, Candy Club's 3Q FY2020 B2B revenue grew 726.2% or 8.3x more than 3Q FY2019.

All of Candy Club's key metrics were achieved in 3Q FY2020. The Company's total number of retail doors exceeded the 10,000 mark, with more than 11,700 retail doors, while the number of B2B customers grew to almost 6,500. Re-order rates, the rate a B2B customer repeats an order, remained healthy at 90%.





With the lifting of the "shelter-in-place" orders in the US, Candy Club's brick-and-mortar business began to see a resurgence during the quarter. The Company resumed shipping its products to many prominent national retailers, including Nordstrom Rack, Kohl's, Bloomingdales, Fresh Markets, Caribou Coffee and WinCo.

*Merchandising displays in "**Curated by Kohl's**" and "**Juniors Department**" featuring Candy Club products.*

"I was recently asked by one of our retail partners why we are having so much success in this challenging market," said Candy Club founder and CEO Keith Cohn. "The answer was simple. Consumers love our products because they are fun, delicious and make people happy. That is especially important in these trying times."

The Company also began testing customer acquisition lead generation via online marketing campaigns on Google, Facebook and Instagram in order to generate new B2B e-commerce customers in 3Q FY2020. The initiative was a great success, and the Company saw its August B2B revenue from customers acquired through these initiatives returned 4x for every dollar of media spent, while re-order rates stood at 2x by mid-October. This was a remarkable accomplishment for Candy Club given the short time frame.

Should this initiative continue to scale, the segment will experience further accelerating growth and increased profitability sooner than expected.

"Despite a challenging operating environment, it has been another great quarter for Candy Club," said Keith Cohn. "We have found new ways to drive growth in our B2B segment by investing in customer acquisition marketing campaigns on places like Google, Facebook and Instagram. And with the 'shelter-in-place' orders lifted, our products are now returning to our brick-and-mortar customers again. As I look ahead, I am most excited about our strategic roadmap. We have many exciting growth initiatives that are well underway, including scaling our customer acquisition marketing campaigns, new product development, new business development partnerships with selling partners and a robust sales pipeline."

The Company's seasonal range, which has historically only provided a small increase in overall revenue, is now poised to become a meaningful segment for the business. In September, Candy Club launched its seasonal Halloween product line and was sold out within four weeks, with five weeks remaining before the holiday.

Based on the overwhelming success of its Halloween products, management increased its Christmas inventory to five times over Halloween levels. Launched in early-October, that range is expected to sell out two months before the Christmas holiday. Candy Club will continue to scale its seasonal range, which is expected to become an increasingly significant part of the Company's overall sales mix for 4Q FY2020.

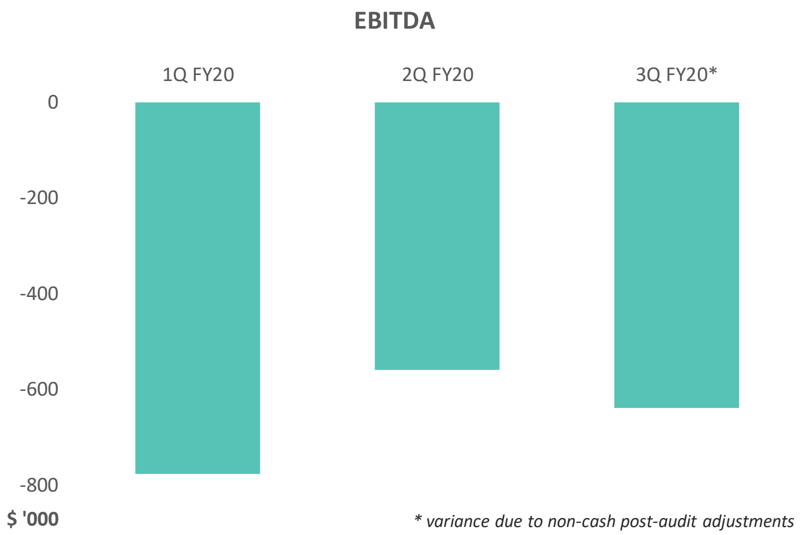
The Company's business-to-consumer ("**B2C**") subscription business remained stable, breaking even after all expenses on the first shipment and profitable by the second shipment.

Candy Club has also entered into several agreements with retailers to sell its products direct to consumers on their e-commerce websites, with partners including Kohl's, Bloomingdales, Macy's, and GameStop.

Financial Performance

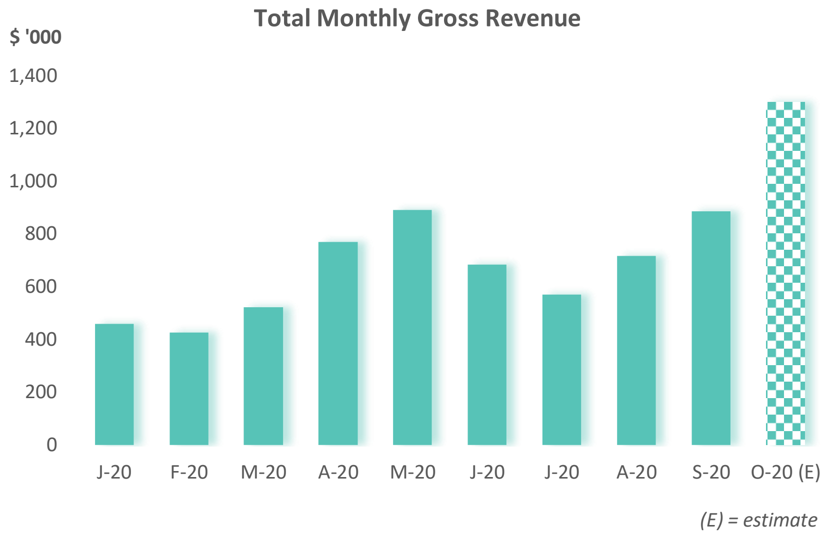
Candy Club had previously stated in guidance that it would be EBITDA-positive in 4Q FY2020. The Company's board and management team mase a strategic decision to make targeted investments to accelerate growth.

Candy Club would have achieved an EBITDA-positive October if it were not for these new investments made in B2B customer acquisition marketing campaigns, new product development and key hires. Even with these incremental expenditures, EBITDA loss is projected to improve significantly, by more than 50% QoQ, and will continue to improve in FY2021.



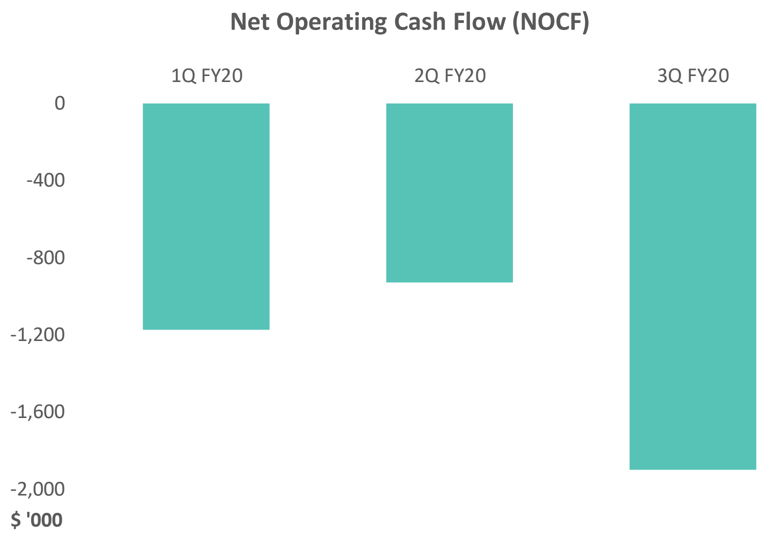
Candy Club recorded total gross revenue of US$2.2 million in 3Q FY2020. Although that is the marginally lower QoQ, that is to be expected due to seasonality issues related to challenges shipping heat-sensitive candies in the summer months, particularly in July. On a YoY basis, revenue grew 146.8% or 2.5x as compared to 3Q FY2019.

The Company successfully launched a "Summer Shipping Program" in 3Q FY2020 that includes the use of ice in its customers' shipments and will be expanding the program in FY2021.



Gross margins continue to improve during the quarter, standing at 43.3% as compared to 41.4% in the prior quarter.

Candy Club's NOCF increased to -US$1.9 million in 3Q FY2020 as the Company grew its inventory balance from US$2.8 million to US$3.7 million to meet the increasing sales demand in 4Q FY2020, funded primarily by its inventory financing facility. Factoring in Candy Club's increase in working capital available from its inventory financing line, the NOCF was -US$1.2 million for 3Q FY2020.



In 3Q FY2020, Candy Club saw its inventory line grow from US$1 million to US$2 million. The Company continues to work with its primary lender to look for additional ways to increase the line further to support future growth. Preliminary indications showed that there would be opportunities to continue to grow the size of the line given the Company's strong performance.

The Company entered 4Q FY2020 with a strong headstart with October B2B revenue forecast to exceed US$1.1 million, overtaking September as the best performing month of the year.

Candy Club expects to end the year with a solid performance where its B2B segment's revenue is expected to grow more than 5x YoY. This further validates Candy Club's effective strategy of pivoting its business to retailers where a gap in the market for high-end confectionery products was identified.

Vision

Based on the Company's strong performance in FY2020 in the face of unprecedented headwinds, it is apparent that there is an opportunity to build Candy Club into a large brand and specialty market confectionery company in the US. Candy Club has to date only penetrated a fraction of the addressable market, and the Company is focused on continuing to build on sales and marketing initiatives and expand its distribution footprint.

To that end, several key strategic growth initiatives are underway. These include:

- New product development in premium candies, seasonal candies, additional packaging executions at various price points and new merchandising display units. This will allow the Company to better serve the needs of existing customers and open up additional markets and distribution channels with anticipated improved gross margins for the business.
- New business development selling partnerships to assist in scaling our customer and revenue base.
- Marketing initiatives to continue building the Candy Club brand through PR, social media and reputation management activities. Candy Club was recently featured in trade publication *"Candy Industry"* and will be featured in the December issue of *"Gourmet News"* as well as many other national publications.
- Scaling the recently launched B2B customer acquisition digital advertising campaigns to grow the B2B customer and revenue base further.
- Development of a company-owned and operated B2B selling portal and other technology-stack improvements.
- Doubling the Company's operational throughput to meet its current and future revenue demand.
- Re-evaluate the B2C subscription business for ways to efficiently grow this segment.

"If these investments yield the results that we expect, and the Company continues to execute well, we will create a very exciting and valuable company over the next 24 months," said Keith Cohn.

"It is great to be a part of Candy Club's growth journey, and I am very excited to see the foundations being laid for the future," said Candy Club Chairman James Baillieu. "Despite the numerous challenges faced since the year started, Candy Club has proven its ability to be successful, and I am confident that Candy Club will continue to thrive. Building a fast-moving consumer brand is never easy, but if one is successful in doing so, the rewards can be great for all stakeholders."

Additional information

The September 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 September 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%

Total	**5,024,000**	**5,024,000**		

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 September 2020 quarter

Payments to related parties and their associates during the quarter was $115,000 which consists of salaries for the CEO, Keith Cohn, and one non-executive director, Andrew Clark, who is also actively engaged in a consulting capacity.

Authorised by the Board of Directors.

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) segment 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 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	**Quarter ended ("current quarter")**
96 629 598 778	30 SEPTEMBER 2020

Consolidated statement of cash flows		**Current quarter $US'000**	**Year to date (9 months) $US'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	1,910	4,995
1.2	Payments for		
	(a) research and development	(12)	(43)
	(b) product manufacturing and operating costs	(2,506)	(5,398)
	(c) advertising and marketing	(259)	(701)
	(d) leased assets	(13)	(53)
	(e) staff costs	(537)	(1,253)
	(f) administration and corporate costs	(429)	(1,429)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(53)	(133)
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**	**(1,899)**	**(4,015)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	(12)	(112)
	(d) investments		
	(e) intellectual property		
	(f) other non-current assets		

Consolidated statement of cash flows		Current quarter $US'000	Year to date (9 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**	**(12)**	**(112)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	1,714	1,910
3.2	Proceeds from issue of convertible debt securities		850
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(32)	(64)
3.5	Proceeds from borrowings	710	2,362
3.6	Repayment of borrowings	(135)	(480)
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**	**2,257**	**4,578**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	640	531
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,899)	(4,015)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(12)	(112)

Consolidated statement of cash flows		Current quarter $US'000	Year to date (9 months) $US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,257	4,578
4.5	Effect of movement in exchange rates on cash held	(17)	(13)
4.6	**Cash and cash equivalents at end of period**	**969**	**969**

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	969	640
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)**	**969**	**640**

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	115
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

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.

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	2,000	1,693
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**		

7.5	**Unused financing facilities available at quarter end**	307

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)– $2.0m credit facility secured by the value of our inventory that currently has $307,000 of availability. Crossroads has increased this line from $1mm at the time it was signed to $2.0mm 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. Currently Versant has been purchasing 100% of the company's receivables.

The Company is in preliminary discussions with additional financing partners about ways to increase access to additional working capital.

8.	**Estimated cash available for future operating activities**	**$US'000**
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,899)
8.2	Cash and cash equivalents at quarter end (item 4.6)	969
8.3	Unused finance facilities available at quarter end (item 7.5)	307
8.4	Total available funding (item 8.2 + item 8.3)	
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	0.67

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.

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?

Answer: The Company expects NOCF to improve as cash receipts increase and cash outflows decrease. In addition, the company expects to receive additional working capital from its financing line that isn't calculated in NOCF.

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?

Answer: The Company is in discussions with its current financing partner about securing further increases to its current inventory line. The company is also in discussions with prospective financing partners about ways the company can increase access to additional working capital. Based on these conversations the company believes that it will be successful in securing access to additional working capital.

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: The company believes that the combination of increases in cash receipts, decreases in NOCF and access to additional working capital will allow the company to continue operations and meet its business objectives.

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: 28/10/20

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.