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ASX CODE: NUC

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29 October 2020
ASX Market Release

30 September 2020 Quarterly Activity Report and Appendix 4C

Quarterly Highlights

- Q1 FY21 net revenue declined 52% on the previous corresponding period (pcp) following disruption to the Daigou channel caused by COVID-19 and the temporary impact of Nuchev's transition to an upgraded Cross Border distributor, resulting in high channel inventory levels
- Average Selling Price and Gross Margin improved on pcp, representing brand strength and pricing discipline
- EBITDA in line with pcp despite sales decline, illustrating effective cost control
- Successful transition to upgraded Cross Border distributor expected to drive growth in H2 FY21, exhibiting agile swift strategic response to changing channel dynamics
- Consumer demand growing strongly for flagship brand Oli6®, with record Oli6® market share in the Australian pharmacy channel and outperformance in Coles supermarkets
- Strong cash position of $20.7m with no debt provides the opportunity to further invest in the fast growing goat infant formula (GIF) category, demonstrating the advantages of Nuchev's capital light business model
- Continued investment in Oli6® brand in preparation for significant "11/11" Singles Day promotional period
- Appointment of Owens Chan as new Non-Executive Director to Nuchev, bringing deep China operational experience
- Nuchev expects to achieve strong revenue and volume growth in H2 FY21, enhanced by continued work on market diversification

Unaudited	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	**Q1 FY21**	**Growth % (pcp)**
Net revenue ($ millions)	3.5	4.6	4.8	4.8	**1.7**	**(52%)**
Volumes (MT)	115	151	152	150	**54**	**(53%)**

Sales impacted by industry wide challenges and strategic decision to transition to new distributor

Q1 market conditions have been challenging driven by impacts of ongoing COVID-19 restrictions and broader economic uncertainty, resulting in slower moving inventory across key channels and an acceleration of channel re-balancing with consumer purchasing shifting to traditional and social e-commerce channels in China.

The key driver of revenue performance versus Q1 FY20 is the Export channel which has been significantly impacted by the industry-wide contraction of the Daigou channel, including corporate Daigou, exacerbated by the continued Stage 4 lockdown restrictions in Victoria. While the effects of Q3 and Q4 FY20 pantry filling / panic buying and subsequent unwinding, together with the lower numbers of international students in Australia and reduced flights to China were expected to impact H1 sales, this disruption has been greater than expected in Q1FY21.

Importantly, Nuchev has been able to adapt and respond quickly to the changes in channel dynamics caused by COVID-19 and in September announced that the company had signed a strategic partnership with top tier distributor Blue Ocean International to manage sales and distribution of Oli6® across a number of key platforms and territories in China. This partnership represents an upgrade to Nuchev's distribution arrangements, particularly across a number of important online and offline platforms popular amongst Chinese end consumers. The transition between the existing and new distributor has been successful and sets the foundation for solid growth moving forward, however the transition phase from Nuchev's previous relationship has also impacted sales in Q1FY21.

Compounding the decline in actual sales performance in Q1 was a 45% reduction in the sale of raw ingredients versus Q1 FY20. It is common industry practice to use ingredient sales to optimise inventory levels however this is not a key focus of the business.

Effective cost control helps deliver EBITDA in line with same quarter last year despite sales decline

Despite the reduction in revenue during Q1 FY21, net cash from operations improved quarter on quarter and importantly Nuchev has ensured operations have rebalanced through quick actions to adjust to the market conditions.

Pleasingly ASP $/MT and Gross Profit both remain strong, with improvements on the same quarter last year demonstrating underlying demand and ongoing brand momentum, as Nuchev continues to command a price premium for the Oli6® brand.

There has been continued investment in marketing during the quarter with a focus on driving engagement and exposure ahead of "11/11" Singles Day in November.

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Detailed expenditure information on marketing, working capital and corporate administration is contained in the Appendix 4C report.

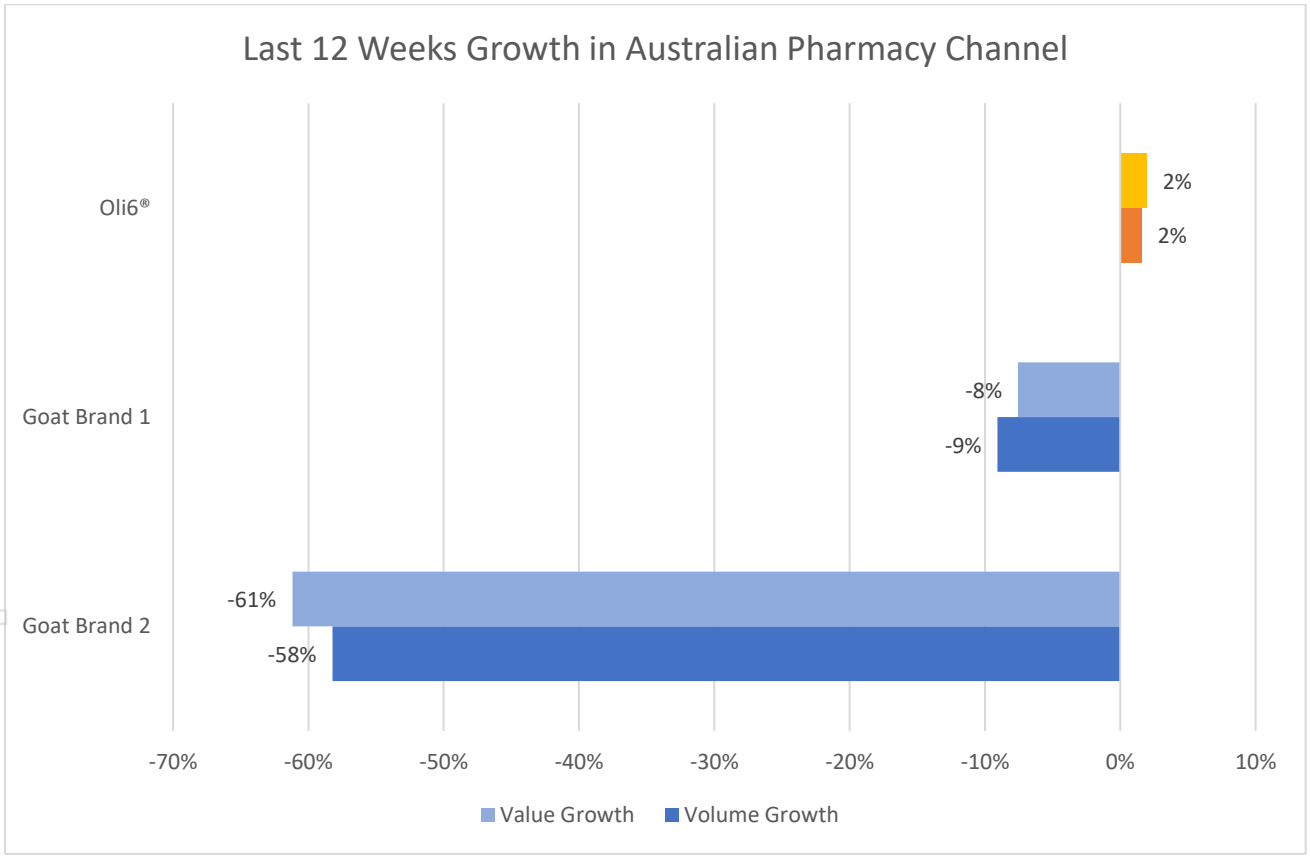
Underlying consumer demand for Oli6® remains strong, and Oil6® is growing GIF market share

Goat infant formula (GIF) continues to be a rapidly growing segment of the infant formula (IF) market and remains an attractive market given the price premium commanded versus other products.

Importantly, underlying consumer demand for Oli6® continues to grow with market share gains being made in key retail channels.

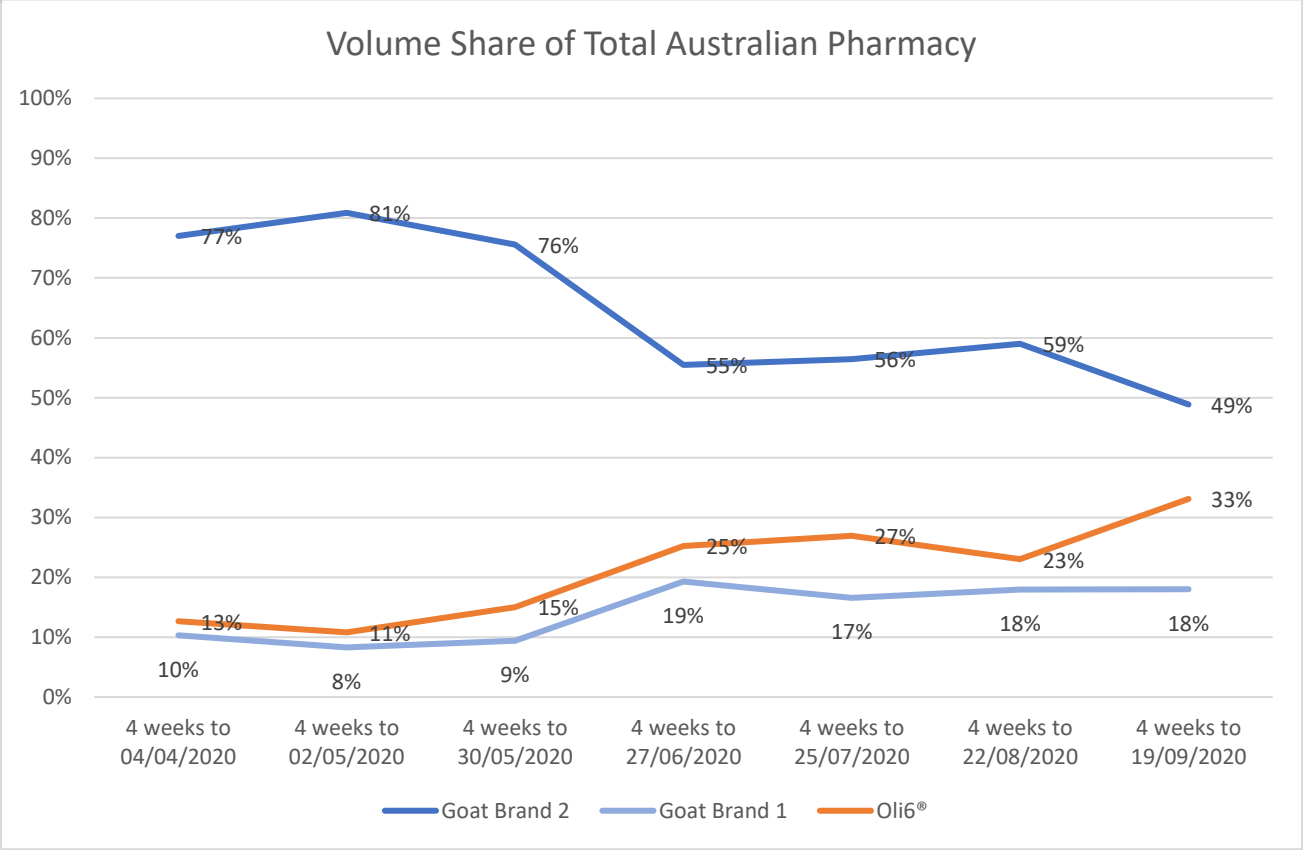
Pharmacy

In the total Australian pharmacy channel, Oli6® was the only GIF brand which grew in both volume and value in the quarter, despite a higher promotional price.



Source: IQVIA Pharmacy Retail Data to 19.09.2020, growth versus prior 12 weeks

This growth together with the volume decline in other goat brands has driven a record high market share for Oli6® - it is the leading Australian GIF brand in the Australian pharmacy channel.



Source: IQVIA Pharmacy Retail Data to 19.09.2020

Coles

Strong brand performance has also been reflected in Coles supermarkets, with the Oli6® brand demonstrating strong growth despite declines in the overall category trend and key competitors. Oli6® retail sales in Coles grew 50% in the last quarter versus the prior quarter with sales recovering following the impact of pantry filling as a result of COVID-19, compared with key competitors who declined 32% and 81% respectively over the same period.

Cross Border Platforms

Oli6® remains a leading global Goat Brand Flagship Store on TMall. Following the successful transition to the upgraded Cross Border distributor during the quarter, performance on TMall and other platforms is expected to continue to improve in line with the increased capability.

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Nuchev has strong cash position and improved funding capacity

At the end of the quarter Nuchev finished with a strong cash position of $20.7M with no debt.

While net cash from operations improved quarter on quarter, overall cash on hand was boosted by the successful capital raising of $15.2M in July. This demonstrates a fast flexible response to market dynamics and highlights the advantages of Nuchev's capital light business model.

Nuchev is well placed for future growth with an extended funding runway which provides the opportunity to further invest in the fast growing Goat Infant Formula category.

Outlook remains positive with Nuchev expecting to achieve strong revenue and volume growth in H2 FY21

Nuchev's near term focus is to ensure the successful performance of its most important promotional period of the year– "11/11" Singles Day in November. This represents a strong opportunity for the business and plans are in place with Blue Ocean and key partners such as Alibaba and JD to drive success. Marketing spend in Q1 has focused on building engagement and exposure leading up to Singles Day to ensure strong performance from Oli6®during this key promotional window. Oli6® brand awareness will continue to be built through celebrities and Key Opinion Leaders in China such as Bai Bing to drive sales over the 11/11 promotional period.

The challenging trading conditions faced in the Daigou channel during Q1 FY21 are expected to continue into Q2, however Nuchev is well placed to capitalize on the recent changes to the strategic distributor partnership with Blue Ocean International. Having completed a successful transition from the previous distributor, operational improvements have already been made and significant sales growth is expected through the Cross Border channel, sufficient to make up for the current shortfall in the Daigou channel.

Nuchev retains multiple avenues for growth in FY21, including further CBEC channel development as well as establishing the Oli6® brand in Vietnam following a successful trial. Further work on market diversification is also being conducted and Nuchev is well-funded to execute on these options and support the strategy to build a high growth, sustainable business based on its premium Oli6® brand offering.

Nuchev well positioned for future growth

As a further step to support the company's growth aspirations, during the quarter Nuchev announced the appointment of Owens Chan as Non-Executive Director of the company, providing strategic guidance on the company's sales and distribution focus across China. Owens has more than 30 years of commercial experience and deep industry relationships across China. He will provide valuable insight to support Nuchev's growth plans in this important market.

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Nuchev CEO Ben Dingle commented, "While we are disappointed with the Q1 sales result, we see this as a short term COVID induced aberration and we are confident we are now on track to return to positive growth. I am really proud of our ability to adapt and respond quickly to changes in industry wide channel dynamics with a highlight being that Gross Profit and Average Selling Price increased over the quarter demonstrating the strength of our Oli6® brand. The changes that we have put in place during the quarter, in particular the strategic partnership with top tier distributor Blue Ocean International, together with the addition of Owens Chan as Non-Executive Director, reaffirm our commitment to the China market. We continue to face industry wide uncertainty and volatility due to impacts of COVID-19, however our strong net cash position and a business model which enables us to be flexible and respond quickly to changing market dynamics, means that Nuchev is well positioned for future growth."

Ben Dingle
CEO and Executive Director
Nuchev Limited

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About Nuchev Limited

Nuchev is an Australian based, globally oriented food business with a dedicated focus on developing, marketing and selling a range of premium Australian made goat nutritional products. Nuchev's primary products include its Oli6® branded goat infant formula and nutritional range, which are sold across multiple sales channels in Australia, China and the Hong Kong Special Administrative Region. Oli6® products are formulated with the benefits of goat, supported by ongoing scientific research. Nuchev operates a capital-light business model, leveraging leading raw goat ingredient suppliers and Australian-based manufacturers in an established, secure and scalable supply chain to deliver high quality products under a premium, trusted brand.

Appendix 4C

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

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Name of entity

NUCHEV LIMITED

ABN	**Quarter ended ("current quarter")**
54 163 225 090	30 September 2020

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (3 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	2,691	2,691
1.2	Payments for		
	(a) research and development	(66)	(66)
	(b) product manufacturing and operating costs	(2,793)	(2,793)
	(c) advertising and marketing	(924)	(924)
	(d) leased assets	(42)	(42)
	(e) staff costs	(1,069)	(1,069)
	(f) administration and corporate costs	(823)	(823)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	32	32
1.5	Interest and other costs of finance paid	(8)	(8)
1.6	Income taxes paid	-	-
1.7	Government grants and tax incentives	39	39
1.8	Other (provide details if material)	42	42
1.9	**Net cash from / (used in) operating activities**	**(2,922)**	**(2,922)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(7)	(7)
	(d) investments	-	-
	(e) intellectual property	(1)	(1)
	(f) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (3 months) $A'000
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	2	2
	(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**	**(6)**	**(6)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from equity securities	15,221	15,221
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to equity securities or convertible debt securities	(984)	(984)
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	Repayment of selling shareholders	-	-
3.10	**Net cash from / (used in) financing activities**	**14,237**	**14,237**

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4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	9,443	9,443
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,922)	(2,922)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6)	(6)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	14,237	14,237
4.5	Effect of movement in exchange rates on cash held	(21)	(21)
4.6	**Cash and cash equivalents at end of period**	**20,731**	**20,731**

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 $A'000**	**Previous quarter $A'000**
5.1	Bank balances	20,401	7,113
5.2	Call deposits	330	2,330
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)**	**20,731**	**9,443**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	228
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Item 6.1 includes Directors fees, CEO salary and related payments paid to the Directors and / or their associated entities

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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 $A'000**	**Amount drawn at quarter end $A'000**
7.1	Loan facilities	-	-
7.2	Credit standby arrangements	-	-
7.3	Other (please specify)	250	-
7.4	**Total financing facilities**	**250**	-

7.5	**Unused financing facilities available at quarter end**	**250**
7.6	Include in the box below a description of each facility above:	

Trade finance facility with ANZ bank

8.	**Estimated cash available for future operating activities**	**$A'000**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(2,922)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	20,731
8.3	Unused finance facilities available at quarter end (Item 7.5)	250
8.4	Total available funding (Item 8.2 + Item 8.3)	20,981
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	**7.2**

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 October 2020

Authorised by: By the Board of Directors

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