



Bubs Australia Limited
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BUBS AUSTRALIA FY21 FINANCIAL RESULTS

SUSTAINED RESILIENCE WITH STRONG PLATFORM TO REBUILD

Melbourne, 31 August 2021: Bubs Australia (**ASX: BUB**) producer of Bubs® Australian made specialty infant formula and children's nutrition products, and primary producer of Australian goat dairy products, today lodged with the Australian Securities Exchange its Financial Results and Annual Report for Financial Year 2021.

Releasing the Annual Results, Bubs Founder and Chief Executive Officer, Kristy Carr said: "There is no doubt that the disruptions caused by the COVID-19 pandemic significantly impacted our performance, with international border closures triggering a severe demand shock and sharp decline in revenues in the first quarter, followed by subdued Daigou sales throughout the remaining three quarters. In addition, we experienced disruption and increased costs associated with outbound international supply chain logistics.

"As we pivoted to new ways of doing business, resetting our supply chain, and working closely with our key domestic and international trading partners, our agility and resilience have underpinned our momentum toward a rebuild phase, following the setback in the first quarter. The strategies implemented to redirect product through the eco system led to an uplift in the second half delivering ten percent half-on-half growth, and we can report that our fourth quarter gross revenues were only four percent below the fourth quarter of FY20."

FINANCIAL OVERVIEW

- Full year COVID-19 pandemic driven gross revenue¹ downturn contained to 24% pcp at \$46.8 million.
- Agility and resilience deliver half-on-half rebuild momentum, with gross revenue¹ growth of 10%, and fourth quarter results just 4% below pcp.
- Group gross margin decreased to \$7.3 million loss, primarily reflecting \$12.6 million in inventory write down / write off and sale of excess bulk powder at a loss to maximise cash conversion.
- Goat Formula gross margin² maintained at 34% in line with prior year, with group gross margin² of branded products at 21% reflecting increased domestic trade spend and change in Channel mix.
- The Group gross margin², excluding inventory write down / write off, was 14% driven by excess industrial bulk powder being sold at a loss to prioritise cash conversion.
- Underlying EBITDA loss was \$28.5 million.
- Robust balance sheet cash position of \$27.9 million.

Commenting further on financial performance Mrs Carr added: "In response to the COVID driven demand shock, we followed a strategy of resisting pressure to push inventory to distributor channels and instead took the position of discounting sales of bulk powder to clear excess inventory and prioritise cash conservation. This enabled the Company to return to a balanced inventory position, with milk supply rightsized to match stabilised offtake demand forecasts."



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DOMESTIC RETAIL SCAN SALES GROWTH

- Fastest growing infant formula manufacturer across Woolworths, Coles and Chemist Warehouse with combined retail scan sales growth of 51.5%³, despite category declining 46%³ in same period.

"Bubs® Infant Formula has more than doubled in domestic market share throughout the year, showing strong brand health metrics as the lead challenger brand and is the clear No.2 in both the Goat and Organic Formula sub-categories. Bubs Australia has outperformed the total category in FY21 and remains the fastest growing infant formula manufacturer across Woolworths, Coles and Chemist Warehouse with combined retail scan sales growth of 51.5 percent³," Mrs Carr said.

CHINA MOMENTUM

- Strong China Cross-Border e-Commerce growth with gross revenue¹ of Infant Formula up 26% pcp.
- Although the Corporate Daigou was heavily impacted by border closures in Q1, gross revenue¹ increased 34% in the second half compared to 1H FY21, and was up 17% on prior year (2H FY20).
- China wholly owned entity established and team appointed to manage customer sales in-market.

"By investing in building brand awareness, new customer acquisition and channel capacity, we have maintained strong Chinese consumer demand for Bubs® Goat Infant Formula resulting in a 26% percent increase in Cross-Border e-Commerce gross revenue¹ over last year. This has helped partially offset the impact the Corporate Daigou channel contraction had on domestic revenues.

"We ended the year with a return to a healthy price architecture across all China channels and momentum building in the facilitated Daigou 2.0 omni-channel sales model intended to positively accelerate demand throughout the entire eco-system," Mrs Carr said.

INTERNATIONAL EXPANSION

- Continuing expansion across SE Asia with total international exports outside of China gross revenue¹ (including ingredient sales) were up 57%.
- Entry into USA with FDA label compliant toddler range launching on Walmart.com in September 2021.
- Deepened bench strength with key executive appointments for next phase of global expansion.

"International gross revenue ex-China demonstrated strong growth, increasing 57% on prior year, including ingredient sales," Mrs Carr said.

DISCIPLINED OPEX MANAGEMENT

- Distribution costs/Gross Revenue¹ % at 4% compared to 3% pcp.
- Marketing costs decreased 28% due to domestic brand marketing investment being redirected into in-channel activity in the short-term.
- Employee costs⁴ increased 8% due to the new resources to support the ability of our organisational capability in multiple markets.
- Increased administration costs⁵ mainly due to bad debts provision, increased costs for New Product Development, IP protection in new international markets, and donations.



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IMPAIRMENT

- Combined with the short-term sharp demand contraction in the Daigou channel, a conservative growth rate adopted in the sales forecast due to the prolonged uncertainties caused by the ongoing COVID-19 pandemic and the longer than expected SAMR approval timeframe, this has reduced the valuation of CGUs. As a result, a non-cash impairment of \$44.6 million relating to Nulac Foods CGU and Deloraine Dairy CGU was recognised.

On a statutory basis, loss after tax was \$74.7 million (FY20: \$7.8 million). EBITDA loss was \$73.1 million (FY20: \$11.3 million) and underlying EBITDA loss was \$28.5 million (FY20: \$11.3 million) excluding non-cash impairments.

CASH POSITION

Healthy balance sheet cash position of \$27.9 million at 30 June 2021 (\$26.0 million, 30 June 2020). The company has sufficient cash to execute its growth strategy in FY22.

STRATEGIC DEVELOPMENTS

The two major developments in the year have been the establishment of a wholly owned China based operating enterprise, and the planned launch into the USA.

The establishment of a wholly owned China based subsidiary, replacing the Beingmate joint venture, allows Bubs to exert control over its margins on goods sold into China. Order fulfilment is through delivery ex-Australia or via bonded warehouses within China, including Online-to-Offline (O2O) covering Mother and Baby stores (for which English label product do not require SAMR registration), together with livestreaming e-Commerce and social selling channels alongside existing third party distributors, and e-Commerce top-tier platforms such as Alibaba Tmall Global and JD.com.

In June, Bubs secured ranging for a September 2021 inaugural USA launch for Aussie Bubs™ Toddler Formula on Walmart.com, the online e-Commerce platform of the world's largest retail group. This is an important milestone in the company's continued implementation of its export diversification strategy to expand Bubs® Clean Label awarded formulations across global markets, as well as building on existing business in South East Asia.

THE YEAR AHEAD

Bubs Executive Chairman, Dennis Lin said: "While the year was undeniably tough, necessitating difficult decisions, we believe that we have emerged stronger for it. We have a strong culture behind an undoubtedly strong brand.

"In responding to the pandemic disruption, we now have clear visibility on the kinds of products that will be relevant for the future independent of any macro relief. A focus on our core business and product portfolio, and the changes we have made to ensure our supply chain is fit for purpose, will stand us in good stead in a world defined by the response to COVID-19.

"At the same time, our management bench strength has never been better including a dedicated team in China, a strengthened Board with the appointment of Ms. Katrina Rathie, a leading FMCG



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consumer brands and intellectual property lawyer, and the appointment of Fabrizio Jorge as Chief Operating Officer to drive Bubs global growth market diversification strategy.

"Notwithstanding the pandemic, large and growing addressable markets remain within our horizons and we are well placed, from farm to consumer, to take advantage of new market opportunities as seen with the launch into North America announced in June this year.

"We remain confident the strengths of Bubs business model will enable the Company to navigate the continuing challenges posed by COVID-19, and anticipate a gradual return to growth as we continue to focus our efforts on our core competencies, and stretch our brand awareness to support new categories in line with our position as a specialist producer of dairy based nutritional products," Mr Lin said.

Reconciliation of underlying EBITDA Loss to Loss before tax

| | FY21 | FY20 |
|-------------------------------|--------------|--------------|
| Loss before tax | (77,878,500) | (16,100,700) |
| Interest income | 144,774 | 317,504 |
| Finance cost | (1,507,582) | (1,380,255) |
| Depreciation and amortisation | (3,405,018) | (3,730,852) |
| EBITDA Loss | (73,110,674) | (11,307,097) |
| Impairment | (44,640,260) | - |
| Underlying EBITDA Loss | (28,470,414) | (11,307,097) |

This release is approved by the Board of Directors.

FOOTNOTES

¹ 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.

² Gross margin is calculated as (revenue – production costs) / revenue.

³ IRI Scan Data, Dollars (\$000's) Growth YA, Coles, Woolworths and AU My Chemist Group combined to MAT 04/07/2021.

⁴ Employee costs do not include share based payments.

⁵ Administration and other costs do not include depreciation and amortisation.

END

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About Bubs Australia

Founded in 2006 in Sydney, Bubs Australia's vision is to create new generations of happy, healthy bubs through its range of premium Australian infant nutrition and goat dairy products. Bubs® Goat Milk Infant Formula and Bubs Organic® Grass-fed Cow's Milk Infant Formula, along with organic baby food, cereals, toddler snacks, and Vita Bubs® infant and children's vitamin and mineral supplements, cater for all feeding occasions and stages of development from newborn through to childhood.

Bubs Australia is the leading producer of goat dairy products in Australia with exclusive milk supply back to the farm gate. Bubs® is proudly the only infant formula in the world to be based on Australian goat milk.

Bubs® products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to China, South East Asia and the Middle East.

Consumer Website: bubsaustralia.com

Investor Centre: investor.bubsaustralia.com