



# FY18

## ANNUAL

### RESULTS PRESENTATION

28.09.2018

ASX: BUB  
Bubs Australia



GOODNESS



VERY BEST



Inspiring new generations of  
happy, healthy bubs.



HONESTY



PLAYFULNESS



# BUBS® PROVIDES QUALITY NUTRITION FOR EVERY STAGE OF A CHILD'S DEVELOPMENT

Our portfolio currently caters for the first

1,000  
days of life



# A PERIOD OF TRANSITION

**FY18**

BUILDING STRONG FOUNDATIONS  
READY TO SCALE



- + Strengthening domestic foothold.
- + Transformative acquisition of vertically integrated supply chain assets.
- + Establishing strategic partnerships in China to drive sales and distribution.

**FY19**

POISED FOR STRATEGIC AND  
SUSTAINABLE GROWTH



- + Further enhance vertical integration and grow milk pool to meet demand.
- + Advance China expansion strategy via channel development and marketing.
- + Extension of Nutritionals product portfolio and organic toddler snacks.





# 01

## FINANCIAL OVERVIEW



# FINANCIAL OVERVIEW

The financial results reflect the significant and essential investment made into vertically integrating our supply chain and production capabilities, whilst building a platform to scale through product and market development.

## FY18

|                   |                   |
|-------------------|-------------------|
| GROSS SALES       | <b>\$18.4M</b>    |
| NET REVENUE       | <b>\$16.91M</b>   |
| GROSS PROFIT      | <b>\$2.28M</b>    |
| GROSS PROFIT %    | <b>14%</b>        |
| EBITDA            | <b>(\$65.72M)</b> |
| NORMALISED EBITDA | <b>(6.37M)</b>    |
| CASH BALANCE*     | <b>\$38.64M</b>   |



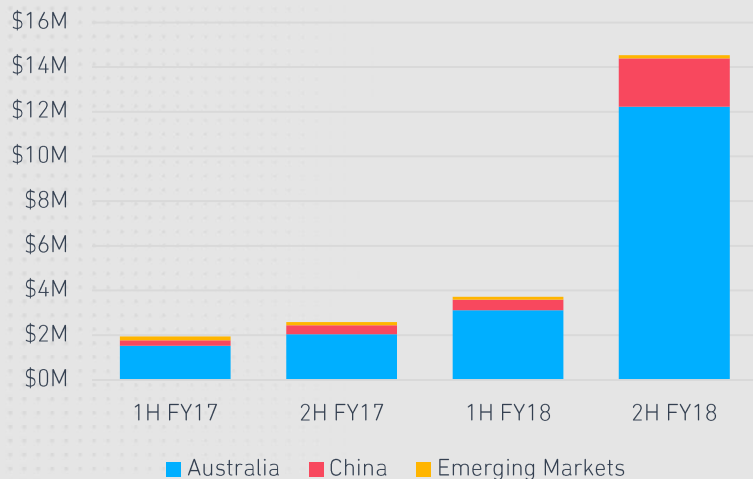
- Continued strong positive momentum with 330% net revenue growth YOY.
- Gross margin has been adversely affected in FY18 due to the change in product mix with the acquisition of Nulac Foods.
- The positive blended margin combined with the strong linear growth in sales is beginning to show scale benefit - mitigating the high fixed operating and administrative costs typical of business in the establishment and growth phase.
- A one off \$610k inventory written off and Net Realisable Value adjustments due to the integration and restructure.
- Expenses incurred outside of the normal operations of the Group:
  - + Corporate transaction expenses of \$1.06 million associated with the acquisition of Nulac Foods;
  - + \$7.50m expense relating to the contingent consideration of \$13.4m payable to the Nulac Foods Vendors for future satisfaction of certain performance targets;
  - + \$48.23m goodwill impairment relating to Nulac Foods cash generating unit. This impairment has no impact on the cash or operational aspects of the Group; and
  - + \$2.54m share base payment expense for options granted to CEO.
- Strong cash position of \$38.64 million at 30 June 2018.



# PERFORMANCE UPDATE

FY18 gross sales triple to \$18.42M with 330% net revenue growth YOY. A significant portion of planned future growth is expected to come from China direct sales (CBEC & MBS).

## FY18 GROSS SALES REVENUE BY REGION



## KEY DRIVERS

- Domestic sales accounts for 84% of total gross revenue.
- Domestic sales increased significantly due to the integration with Nulac Foods in 2H FY18.
- 2H FY18 domestic sales increased 294% and 507% respectively versus 1H FY18 and prior period.
- Increased domestic sales of Infant Formula is primarily due to the expanded domestic distribution, and new ranging in Woolworths.
- 2H FY18 China sales increased 352% and 433% respectively versus 1H FY18 and prior period due to the execution of trading agreements with New Times Asia, QJWP and Alibaba.
- 2H revenues +292% vs prior period.
- FY19 net revenue is expected to increase at least 100% due to the \$17m sales contract with New Times Asia.



# PRODUCT MIX

Group product mix spread across dairy segmentation: Nutritionals, Chilled and Powder.



- Infant Formula
- Baby Food
- Milk Powder
- Fresh Dairy
- Other

## KEY DRIVERS

- Infant Formula revenue accounts for 30% of total gross revenue in FY18.
- Infant Formula FY18 revenue +117% vs prior period; 2H revenue + 83% vs prior period.
- Baby Cereals FY18 revenue +308% vs prior period; 2H revenue + 356% vs prior period.
- As a result of the acquisition, CapriLac milk powder and Coach House Dairy fresh dairy products account for 36% and 20% of total gross revenue respectively in FY18.
- FY19 focus moves to growing Infant Formula, the most profitable product line, maximising gross margin.

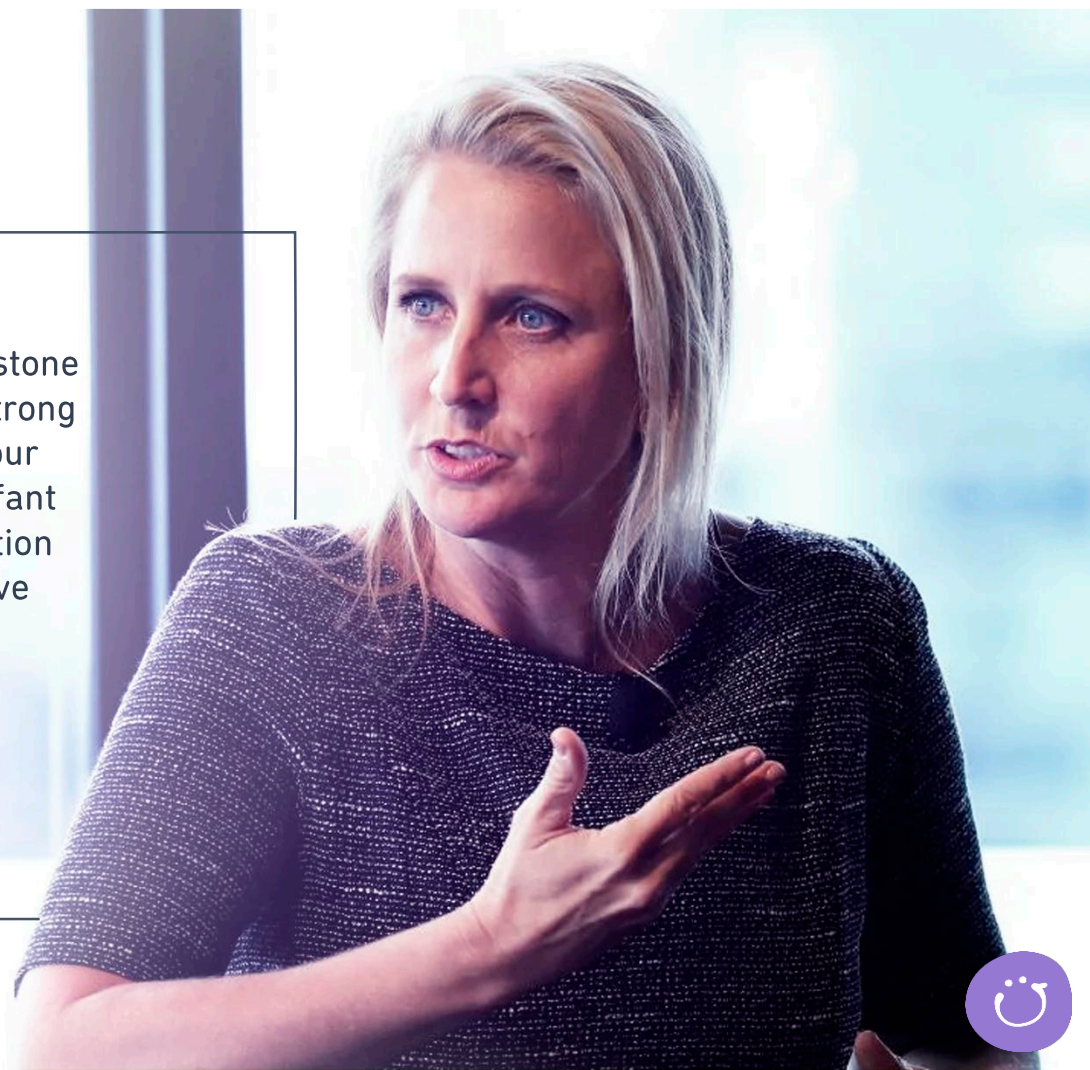


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The past year has been one of many milestone achievements as we continue to build a strong foundation, enabling scale. We now shift our focus to accelerating the growth of our infant nutrition products in China. This optimisation of our product and market mix will improve margins and drive profitability.

**KRISTY CARR**

founder & chief executive officer

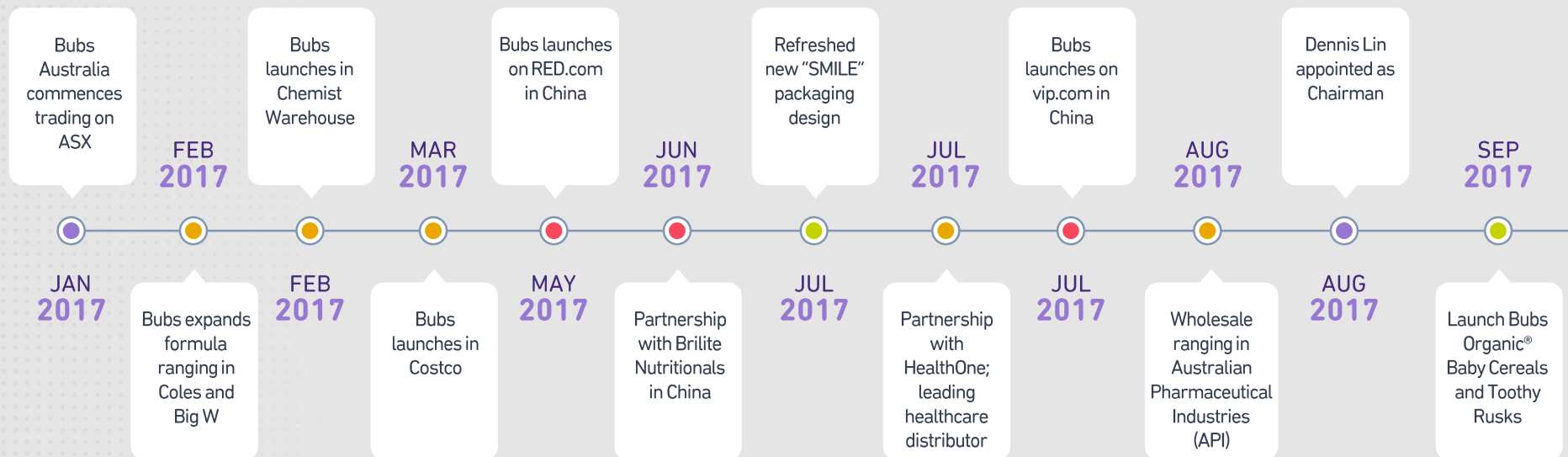


# 02

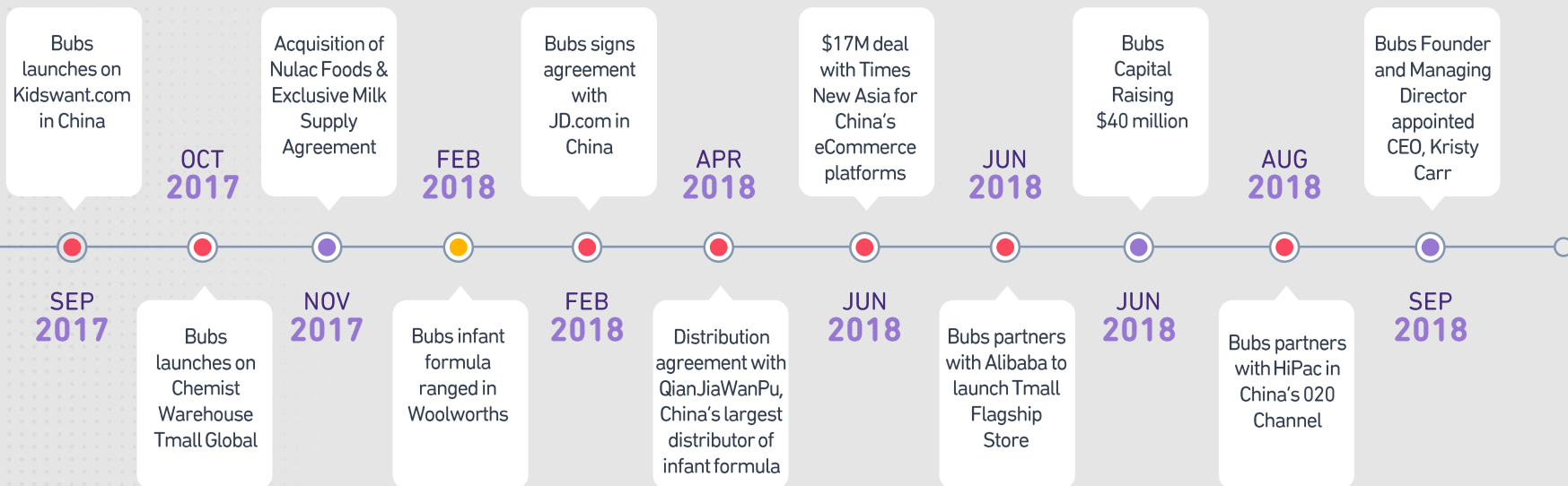
## STRATEGIC PRIORITIES



# CONTINUED MOMENTUM (ASX: BUB)



# CONTINUED MOMENTUM (ASX: BUB)





# STRATEGIC PRIORITIES

## 04

### KEY PILLARS CRITICAL TO DELIVERING THE FUTURE GROWTH OF THE BUSINESS:

- + Bubs Organic® Cereals
- + CapriLac® powder extensions
- + Coach House Dairy® new flavours

- + Coles
- + Woolworths
- + Chemist Warehouse
- + Aldi, Costco, Big W
- + IGA & Pharmacies

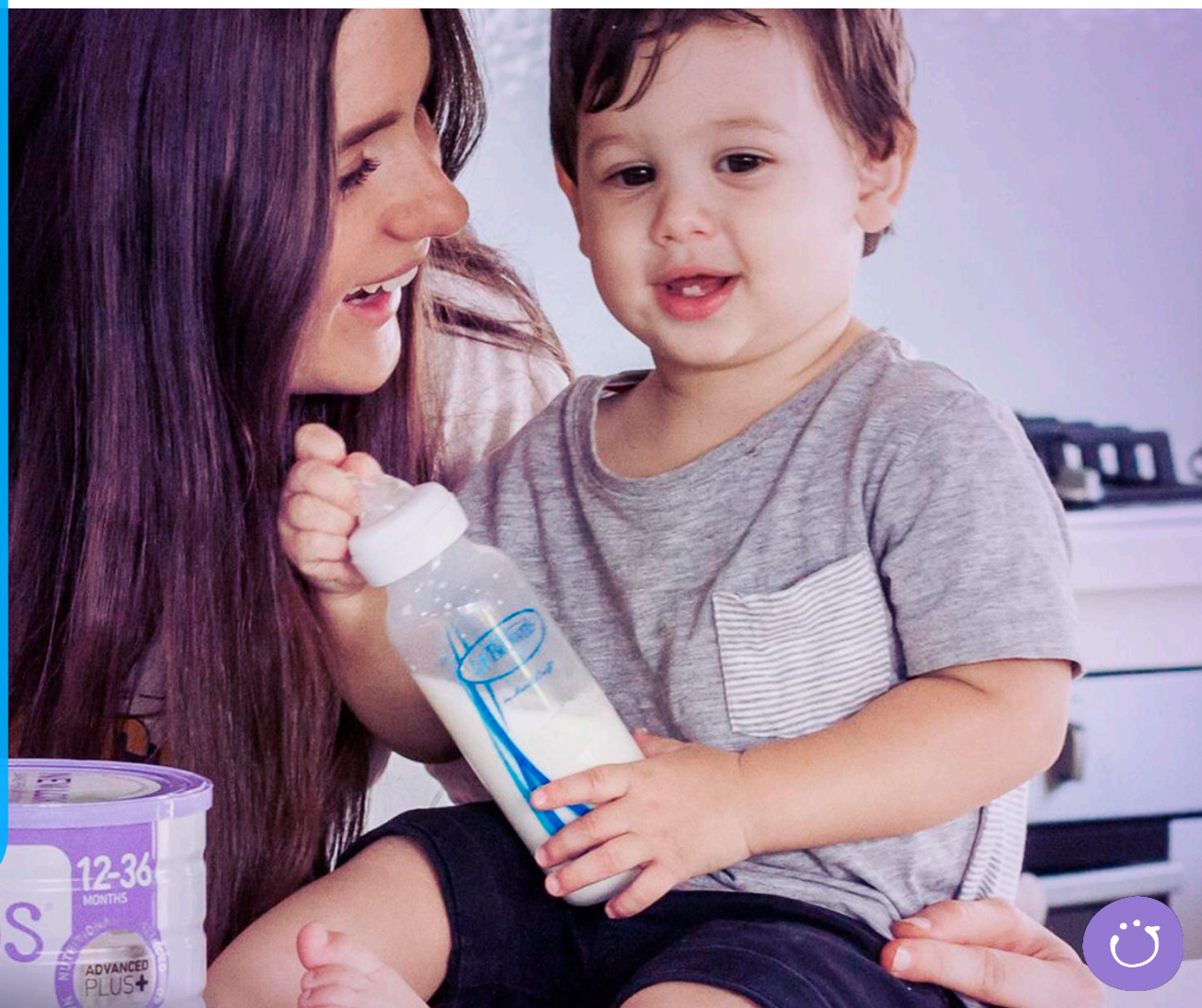
- + eCommerce partnerships
- + Daigou engagement
- + Mother & Baby Stores (Food)
- + Online-to-Offline (O2O)

- + Brand design re-launch
- + B2C website re-launch
- + 120k social community
- + 7.5mil influencers reach



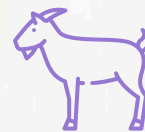
# 03

## SUPPLY CHAIN INTEGRATION



# GENTLE GOAT MILK NUTRITION

## WHY GOAT MILK?



Digestion is a key criteria for parents when choosing which infant formula to feed their child.

The unique protein and fat structure in goat's milk makes it easier for the body to break down and can be absorbed more gently.

Goat milk formula is particularly suitable for infants suffering from a cow milk protein intolerance or other digestive issues, i.e. wind, regurgitation, colic, reflux, congestion, skin rash, or eczema.



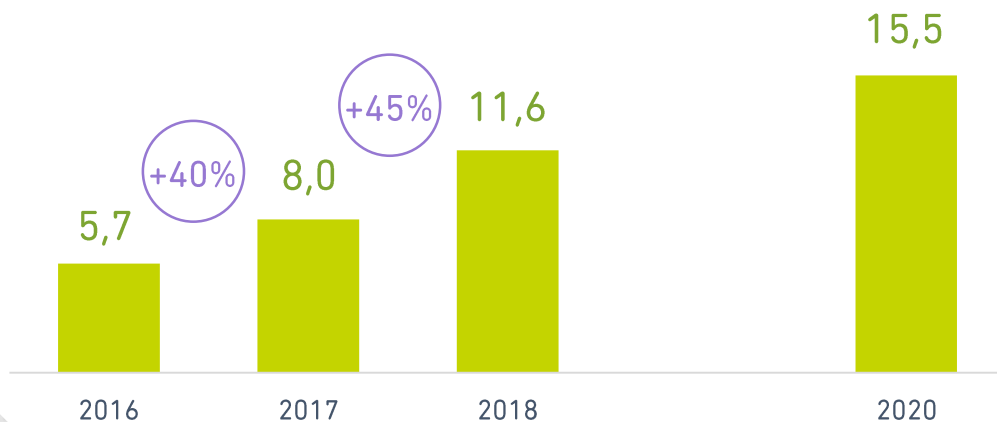
# CHINESE DEMAND FOR GOAT MILK FORMULA

Goat milk formula is experiencing rapid growth in China.



## MARKET SIZE (RETAIL VALUE) | BN RMB

CAGR +28%



## CATEGORY POTENTIAL

- Goat milk based formula is experiencing rapid growth, now accounting for 5-10% share of total category
- Category leader Net Revenue ¥1.2Bn (+55% YOY)
- Price index above category
- Consumers are trading up to premium brands, driving +ve value growth







## AUSTRALIA'S LARGEST PRODUCER OF GOAT DAIRY PRODUCTS

In December 2017, Bubs Australia acquired 100% of Nulac Foods, transforming the Company into a clear leader in the goat dairy landscape, supplying >60% of Australia's total goat milk production.

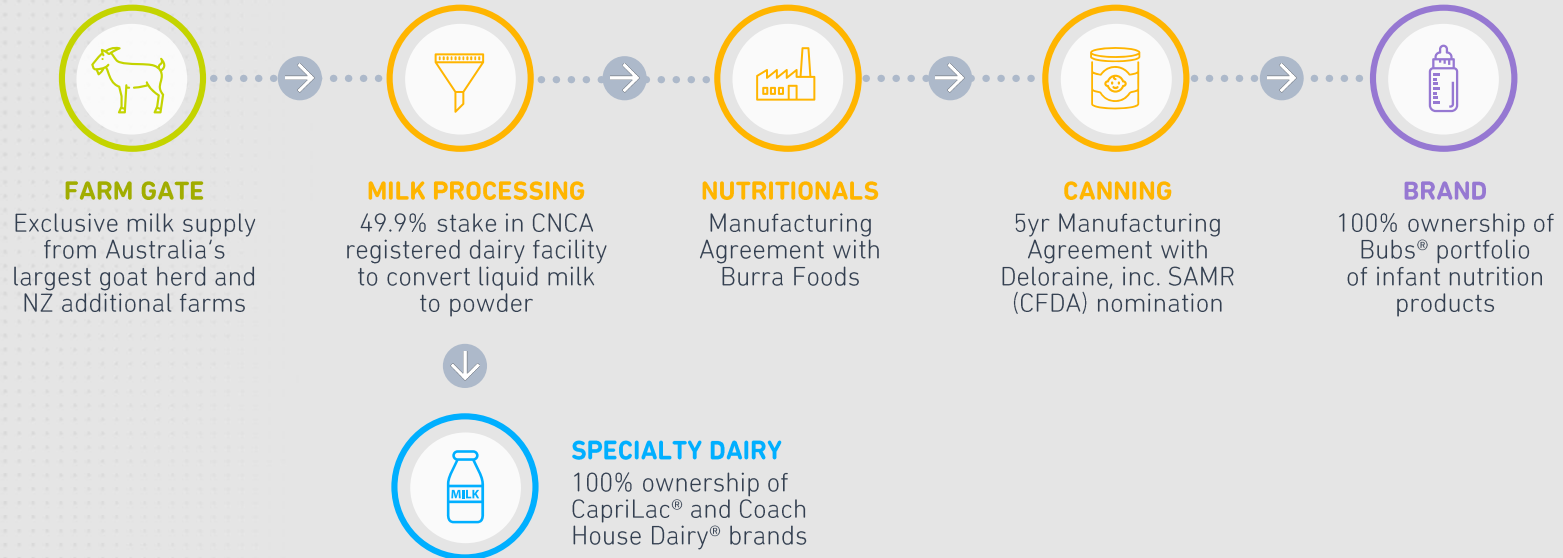
Guarantees ongoing exclusive access to locally sourced quality fresh goat milk at a fixed price. Our milk pool has grown to >13 million Lt/yr, or 1,500T milk powder.

The herd size is now approximately 24,000 with plans to further grow the combined herd to 50,000 milking goats.



# VERTICAL INTEGRATION

Supply chain integration and strategic manufacturing partnerships provide Bubs® with a unique positioning, offering consumers and retailers product integrity, traceability, scalability and provenance.



# SPECIALTY DAIRY PORTFOLIO

## DIVERSIFICATION DELIVERS INCREMENTAL REVENUES AND BALANCES MILK ALLOCATION



Our specialty dairy portfolio includes CapriLac® yoghurt, fresh and powder goat milk products, as well as Coach House Dairy® award-winning flavoured Jersey milk.

Provides a margin accretive channel to redirect excess milk flow into our own brands, particularly in the high milk production season.

Synergies with existing and new retail partners, including Coles, Woolworths and Aldi.



# 04

## CHINA CHANNEL STRATEGY





# CHINA ROUTES TO MARKET

Multi-channel strategy to stimulate demand outbound from Australia and in-market in China.

## PUSH FROM AUSTRALIA



Australian shelf presence in major supermarkets and pharmacies.



C2C Daigou KOL



## PULL FROM CHINA



Mother and Baby stores



B2C Cross-border, eCommerce and O2O



# STRONG DOMESTIC PERFORMANCE

## 2,500 Australian retail touchpoints

Bubs® was founded in Sydney in 2006 and upholds an established premium positioning in the domestic infant nutrition category with a loyal and growing consumer base. The Company maintains that a strong brand presence at home is paramount for consumer uptake in China.

Throughout the year, the Company focused on expanding key points of domestic distribution, including securing new ranging across its product portfolios in Woolworths, Costco, Aldi, Metcash, Chemist Warehouse and other leading pharmacy banners, as well as increasing store counts in longstanding retail partners Coles and Big W.

Bubs® infant formula sales increased by 33% in Coles in FY18, making it the fastest growing brand in value over the last 26 weeks as at 30 June 2018 versus last year.



# C2C eCOMMERCE

## DAIGOU ENGAGEMENT

The Company has commenced actively engaging the Australian Daigou community, by sponsoring industry events and Key Opinion Leaders (KOL's).

This activity promotes the syndication of Bubs® digital content and product reviews, resulting in increased brand awareness and C2C sales on Tmall, Taobao and WeChat platforms.



C2C Daigou  
KOL

# B2C eCOMMERCE

## STRATEGIC ALLIANCES WITH ALL MAJOR eCOMMERCE PLATFORMS

Throughout the year, significant progress was made in the cross-border eCommerce channel via a strategic partnership with Times New Asia, securing a minimum sales volume commitment of \$17 million in Y1, \$24 million in Y2 and \$37M in Y3 on major platforms, including JD.com, Kaola, VIP, RED, Suning, Jumei, Kidswant, Yuou and Baobaoshu.

In addition, the Company recently launched two Tmall flagship stores on Alibaba for CapriLac® and Bubs® products, and a co-branded pop store on JD.com.





# MOTHER & BABY STORES

## BUBS ORGANIC® BABY FOOD LAUNCHES IN MOTHER & BABY STORES

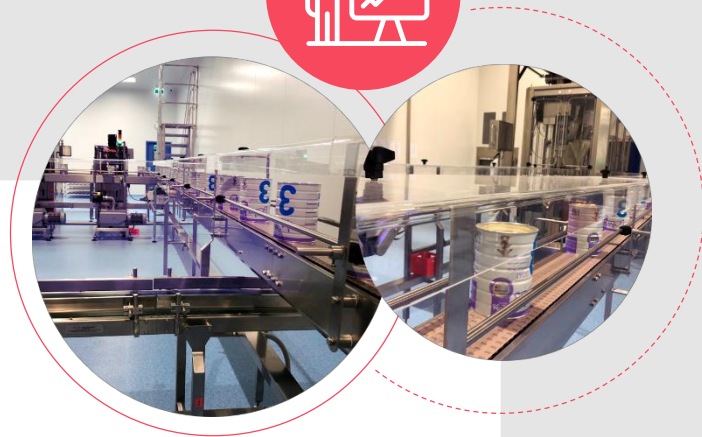
Following successful import registration, Bubs Organic® baby food products have launched into the first Mother and Baby stores in China via a new partnership with QianJiaWanPu, the largest distributor of infant formula in China covering a network of over 50,000 specialty retail stores.



# REGULATION PROGRESS

## WELL PROGRESSED WITH SAMR APPLICATION

- In June 2018, Bubs Australia entered into a long-term Agreement with Australia Deloraine Dairy, one of the 15 infant formula manufacturing facilities in Australia licensed to produce infant formula for export to China.
- Bubs® was nominated as one of their three brand slots for applying for SAMR (formerly CFDA) registration, which is required for the Company to directly export Bubs® Chinese labeled infant formula products into physical retail stores in China.
- A comprehensive assessment of the manufacturing standards, scientific formulation, raw materials and finished product laboratory testing has been completed.
- Upon receiving the successful registration notice from SAMR, the Company will then be required to transfer the brand name and company ownership details on the dossier application.



# 05

## OUTLOOK



# FY19 STRATEGIC GROWTH PLANS

With solid foundations in place, the Company is poised for sustainable growth:

## VERTICAL INTEGRATION & SUPPLY CHAIN



- + Increase the milk pool to ensure supply meets forecasted growth demand.
- + Explore opportunities to further enhance the vertical integration of business operations, specifically infant formula manufacturing and key dairy ingredients.

## CHINA CHANNEL DEVELOPMENT



- + Digitally driven brand marketing campaign launch in China.
- + Australian based Daigou engagement and C2C activation.
- + Progress SAMR registration application.
- + Expand Mother & Baby store distribution footprint and trade sales program.

## PRODUCT DEVELOPMENT



- + Extend nutritional product portfolio; the most profitable sector of the business.
- + Expand organic toddler snack offering; growth opportunity in Australia and China.
- + Continue to adapt Bubs full portfolio of products to be suitable for China.

## CORPORATE



- + Driving strong and sustainable revenue growth.
- + Optimise channel and product mix for margin improvement to drive profitability.
- + Strengthen team capabilities, including new appointments in Executive Management, Sales, Marketing, Supply Chain, Technical QA, and China market management.





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