



Bubs Australia Limited
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31 August 2023

Bubs FY23 Results

31 August 2023, Melbourne: Bubs Australia Limited (ASX:BUB) ("**Bubs**" or "**the Company**") today announced its unaudited financial results for the year ended 30 June 2023 (**FY23**).

FY23 Group Highlights

- **Group Revenue of \$60.1m, down 32.7% on prior corresponding period (pcp) (FY22: \$89.3m)**
 - **Group Revenue for Infant Milk Formula (IMF): \$48.6m, down 9.2% pcp (FY22: \$53.5m)**
 - **Group Revenue for branded products¹: \$57.7m, down 25% pcp (FY22: \$77m)**
- **Group Gross Revenue of \$73.8m¹, down 29.% pcp (FY22: \$104.2m)¹**
- **Underlying Gross Margin of 30%², an increase from 27%² in FY22.**
- **Underlying EBITDA loss of \$34.4m³, down \$33.4m³ pcp (FY22: loss of \$1.0m)**
- **Statutory After-Tax loss of \$108.4m, including non-cash significant items of \$70.8m⁴**
- **No.1 Goat Formula brand in Australia⁵ (49.6% market share) and USA (94% market share)**
- **USA market expansion is the long-term strategic priority**
- **US FDA permanent regulatory pathway remains on track**
- **Reset China strategy to leverage new trade partners across multiple channels with a focus on tighter inventory management**
- **New management team, led by Reg Weine as CEO, with a commitment to responsibly manage capital and maximise shareholder value**
- **USA and Australia achieved revenue growth compared to FY22**
- **FY24 Revenue guidance of \$80m (at 40% gross margin)**
- **Expectation to be cash flow positive in FY25**
- **\$26.1 million in total cash and cash equivalents plus \$8.0m in undrawn debt facilities available as at 30 June 2023**

FY23 was a challenging period for Bubs which reported a statutory net loss before tax of \$107.4m, compared to a statutory net loss before tax of \$11.3m in FY22. This result includes a non-cash impairment of \$36.2m⁴, with underlying EBITDA loss of \$34.4m³. Total revenue of \$60.1m, was 32.7% lower than FY22.

As announced to the ASX on Tuesday, 29 August 2023, existing non-executive director, Reg Weine, was appointed as Bubs' new Chief Executive Officer and Managing Director with immediate effect. Mr. Weine has over 25 years of experience in the FMCG and agri-food sectors, and over 15 years in international markets and trade.

Bubs CEO, Reg Weine said, "We are well progressed to arrest the decline in shareholder value and get Bubs back to growth and being cash flow positive. Maximising our opportunity in the US market and resetting China



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are two significant components of our plan, and the Board is confident that we now have the right governance structure, leadership team and strategic partners in place to deliver this growth. We have made significant inroads already and are starting to see results.”

While there have been significant impairments identified and recognised in FY23, the Board is focused on executing on the 5-point strategic plan announced in July 2023:

1. USA Growth Engine;
2. China Reset;
3. Portfolio Optimisation;
4. Sweat Existing Assets; and
5. Working Capital.

Financial performance

The Group recorded statutory revenue for FY23 of \$60.1m, a 32.7% decrease on the pcp. Underlying EBITDA loss of \$34.4m³, compared to an EBITDA loss of \$1.0m³ on pcp.

Revenue was supported by strong growth in the large U.S. market and steady growth in Australia and rest of world (excluding raw material bulk ingredient revenue) but was offset by lower revenues in China as set out in further detail below. The decline in EBITDA³ was driven by this lower revenue and an inflated cost base from FY22. Nevertheless, greater marketing investment is expected to benefit the business going forward.

Statutory net loss of \$108.6m includes a total of \$36.2m in non-cash impairments⁴ relating to the Deloraine and Nulac CGUs, \$27.3m inventory provision⁴, \$6.8m allowance for credit losses⁴ and \$0.6m share-based payments⁴.

PERFORMANCE BY REGION

- USA: revenue of \$23.9 million, up 196% on pcp, representing 40% of total revenue (FY22: 9%)
- Australia: revenue of \$17.4 million, up 20% on pcp, representing 29% of total revenue (FY22: 16%)
- China: revenue of \$13.6 million, down 73% on pcp, representing 23% of total revenue (FY22: 55%)
- Rest of World: revenue of \$5.3 million, down 70% on pcp, representing 9% of total revenue (FY22: 3%) (excluding raw material bulk ingredient revenue).

United States

Revenue in the USA was \$23.9m, an increase of c. 196% from FY22. The U.S. is now Bubs' largest revenue segment and contributed 41% of total revenue in FY23, up from 9% in FY22. The USA is the second largest infant formula market globally, valued at A\$5.6 billion⁶.

Mr. Chris Lotsaris who has worked with Bubs for 5 years and has more than 20 years' FMCG experience, was appointed General Manager – USA during the year and he will continue to drive an increase in product availability, velocity, and brand awareness and with American consumers.

Bubs is continuing to undertake the necessary steps to progress the USFDA permanent pathway to the USA market. Bubs can continue to sell infant formula products in the USA under Enforcement Discretion until October 2025. In June 2023, Bubs submitted its Protein Efficiency Ratio study to the FDA and expects to submit its Growth Monitoring Study (clinical trial) to the USFDA by October 2024 in accordance with the regulatory timeline.



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Improvements in shelf availability were evident in Q4 as Bubs secured ongoing range extensions with major retailers Walmart, Kroger, and Target. Distribution continued to grow in Q4 via new retailers Big Y, Spartan Nash, and Wegmans. Q4 Revenue of \$11.7m was up 98% on Q3, with e-commerce the main driver of revenue and volume growth. Amazon delivered another record month in July with \$1.4m in retail revenue, and they have now eclipsed \$1.0m per month, for the three consecutive months of Q4. E-commerce overall represented 36% of Bubs total USA revenue, as families continue to turn to the convenience of shopping online for infant formula.

China

Revenue in China was \$13.6m, compared to \$49.4m in FY22. The sharp decline was the result of prolonged lockdowns relating to COVID outbreaks, reduced consumer spending and cross-border channel disruptions.

As advised to the market on 3 July 2023, Bubs previously relied on the daigou channel to sell product into China and had an exclusive distribution partnership with Willis Trading Limited (Willis) and Alice Trading Limited (Alice), entities affiliated with AZ Global. Bubs developed Bubs Supreme, which was manufactured exclusively for its distributors Willis and Alice to distribute into China. Both of these entities currently hold significant levels of Bubs Supreme and Bubs is owed \$5.7m for finished goods delivered to these entities which still remains outstanding. Bubs continues to pursue the outstanding debt from Willis and Alice and will continue to keep the market updated on any significant developments.

Bubs acquired significant amounts of raw materials under the contractual commitments with Alice to manufacture Bubs Supreme. Under the relevant Australian Accounting Standard, Bubs is required to review the carrying value of Bubs' inventory which has resulted in a non-cash impairment charge of \$25.2m in FY23.

As part of the 5-point plan announced in July 2023, Bubs is resetting its China strategy which is led by Jackie Lin who has extensive experience in Chinese FMCG and IMF markets. Bubs is targeting a multi-channel strategy to China and has appointed two new distributors in its daigou channel. These distributors are well placed to service the broad geographical Australian daigou community and drive the Bubs product portfolio into China. Additionally, a new China-based CBEC distributor has been appointed that is both reputable and experienced. These appointments are expected to provide appropriate channel access, management and growth going forward.

Bubs is resetting the base revenue and costs in FY23 and is going to grow the revenue volume from the FY23 base.

Australia

Revenue in Australia was \$17.4m, an increase of 20% from FY22. Bubs continues to be the major player in the Australian goat formula market and holds a dominant market share of 49.6%⁵. Also, Bubs continues to be the fastest growing IMF manufacturer in Australia with a 4.8% share of the total Australian IMF market, an increase from 4.3% in FY22⁷. Growth in market share was assisted by additional stockists including Big W and Baby Bunting.

Rest of World

Revenue to all countries excluding U.S., China and Australia was \$5.0m, 78.5% higher than FY22 (excluding raw material bulk ingredient revenue).

Gross Margin

On a normalised basis², gross margin for FY23 was 30%² compared to 27%² in FY22. Goat IMF had the highest product margin at 41%. As part of the strategic review, Bubs has commenced a rationalisation program to eliminate products with low gross margins in order to focus on its hero brands including Bubs and Caprilac. Bubs is the global leader in infant and adult goat nutrition⁵ and will utilise its market position in order to pursue a premiumisation strategy.



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Balance Sheet

Bubs held \$26.1m of cash and cash equivalents at 30 June 2023 and had \$8.0m of available undrawn headroom on its debt facility.

Post 30 June 2023, Bubs renewed its existing NAB debt facility.

FY23 Financial Summary

- Revenue of \$60.1 million, down 32.7% on the prior year
- Net Loss Before Tax of \$107.5 million, \$11.3 million in FY22
- Non-Cash Impairment of \$70.8 million⁴
- Underlying EBITDA loss of \$34.4 million³, loss of \$1.0 million³ in FY22
- Underlying Gross Margin 30%²
- Cash and cash equivalents as at 30 June 2023 of \$26.1 million

FY24 Priorities and Outlook

In early July 2023 Bubs announced its strategic review and its plan for growth and delivering shareholder value.

The Strategic Review sets out a 5-point plan to responsibly manage capital and to grow and maximise shareholder value. The key points in summary include:

USA Growth Engine – grow further into the major retailers, including Grocery & Pharmacy and increase velocity or sell-through. Continue to drive growth and scale through E-Commerce platforms, and secure FDA permanent access to the USA market.

China Reset – has commenced with a multi-channel go-to-market strategy with new leadership, new trade partners and focused where Bubs has a clear competitive advantage – goat IMF and goat adult milk powder.

Portfolio Optimisation - Bubs is the market leader in its hero goat product segment pioneering the IMF category in the USA and China. Strategic focus will be around premiumisation, repositioning bovine IMF products, product rationalisation, innovation and investment in core brands.

Sweat Existing Assets - Bubs' state of the art manufacturing facility in Deloraine, Victoria is under-utilised, operating at approximately 31% capacity. To boost utilisation Bubs is assessing State Administration for Market Regulation (SAMR) registration for China, toll manufacturing and selective private label opportunities.

Working Capital – annual operating expenses have been reduced by approximately \$10m⁸ and we are on track to cut the monthly cash burn from \$5m to \$2m from Q2 FY24 (excluding EGM and legal expenses)⁹. Bubs' plans to liquidate excess inventory have commenced and are expected to be realised in FY24. Bubs will continue to support its growth markets and core brands, maintaining its marketing investment at 15% of revenue.

The Company is committed to delivering growth for shareholders in FY24 including:

- Revenue \$80m, representing a 33% increase on the previous year
- Gross profit margin of 40%
- Continued FDA progress
- Renewed focus on infant & adult goat nutrition



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- Working capital improvements
- Improved transparency and governance

Bubs has started FY24 with strong momentum, with August YTD results in line with internal budgets and forecasts⁹.

Commentary on Results

Bubs Australia Chair Katrina Rathie said “Whilst FY23 financial results were disappointing, we are making steady progress and seeing many green shoots. Bubs momentum continues to build in the U.S., our growth engine, where revenue increased by 195% YOY. Bubs USA FDA permanent pathway remains firmly on track with the Growth Monitoring Study (GMS) now underway and our first infant enrolled in the clinical trial. Bubs anticipates FDA approval in October 2025.”

Mr. Weine noted that “while FY23 was an extremely challenging year for Bubs, our strategic plan is designed to deliver sustainable shareholder value and growth, based on executing the right strategy with a razor-sharp focus on our costs and the bottom line. We will continue to leverage our strong brand in the USA, increase utilisation at our world-class manufacturing facility at Deloraine, and maximise shareholder value.”

Gross Revenue Reconciliation¹

| | FY23 | FY22 |
|----------------|-------------------|-------------------|
| Gross revenue | 73,752,875 | 104,188,927 |
| Trade spend | (13,642,248) | (14,891,603) |
| Revenue | 60,110,627 | 89,297,324 |

Reconciliation of Underlying EBITDA Profit / (Loss) to Loss Before Tax³

| | FY23 | FY22 |
|--|---------------------|------------------|
| Loss before tax | (107,484,539) | (11,301,122) |
| Interest income | (518,982) | (58,378) |
| Finance cost | 452,470 | 914,374 |
| Share of (profits)/loss of JV | 16,914 | (87,193) |
| EBIT Loss | (107,534,137) | (10,532,319) |
| Depreciation and amortisation | 2,320,272 | 2,693,197 |
| EBITDA Loss | (105,213,865) | (7,839,122) |
| Share based payments | 601,439 | 8,344,078 |
| Equity linked transaction | - | 4,246,021 |
| Impairment | 36,165,080 | - |
| Inventory provision | 27,270,491 | (5,010,769) |
| Allowance for credit losses | 6,785,873 | (715,099) |
| Underlying EBITDA profit / (loss) | (34,390,982) | (974,891) |



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Full Year Results Webinar Details

Date and Time: 10:00am EST on Thursday 7th September 2023

To Register: Sign up using the link below:

<https://loghic.eventsair.com/bubsaustralia/register/Site/Register>

Footnotes

¹ Gross revenue is a non-IFRS term, see reconciliation between gross revenue and revenue

² Underlying gross margin is a non-IFRS term, excludes net inventories provision / reversal (FY23: \$27.3m provision, FY22: \$5.0m reversal)

³ Non-IFRS term, see reconciliation between loss before tax and underlying EBITDA

⁴ \$70.8m relate to \$36.2m non-cash impairments relating to the Deloraine and Nula CGUs, \$27.3m inventory provision, \$6.8m allowance for credit losses and \$0.6m share-based payments.

⁵ Circana Scan Data

⁶ <https://www.alliedmarketresearch.com/us-baby-infant-formula-market-A10849>

⁷ IRI scan data, Dollars (\$'000) Growth YA, Market Share Coles, Woolworths and Chemist Warehouse combined to MAT 04/06/2023

⁸ Non-IFRS measure

⁹ Unaudited statement

This release is approved by the Board of Directors.

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