

ASX: BUB  
Bubs Australia



# bübs®

## IH FY23

### Interim Results

28 February 2023



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Unless otherwise stated, all dollar values are in Australian dollars (\$ or A\$). A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Presentation are subject to the effect of rounding.

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# BUBS WINNING FORMULA

Bubs brand-led vertically integrated model is uniquely positioned to deliver margin accretive global growth.



Trust in Bubs<sup>®</sup> brand as clean nutrition expert

Bubs<sup>®</sup> is trusted by millions of families around the world to nourish their baby through the first 1000 days of life, with clean, quality nutrition.



Focused on high margin infant formula portfolio

Focus on high margin growth contribution with optimum mix. Bubs<sup>®</sup> brand extends to all three fastest growing premium formula category segments.



Diversification in highest potential global markets

Driving growth and global brand reach in highest potential infant formula markets; China and USA, to build on strong home market position.



Scale increases operational capacity and efficiency

Vertical integration and increased scale enable flexibility to manage operational capacity, increased efficiencies, and mitigate disruption and inflation impact on supply chain.



People and culture promote innovation and agility

Innovation and agility are inherent in Bubs' DNA, resulting in first mover advantage and a strong track record in operational execution excellence to achieve our global growth ambition.

# DIVERSIFICATION THROUGH GLOBAL EXPANSION

Bubs is entering a new phase of growth runway and maturity as a global infant nutrition specialist. The accelerated entry into the United States provides an important diversification of our key markets, reducing the inherent risk of being too heavily reliant on China as our only major growth engine.

## Penetration into 3 Key Markets

Bubs is in the enviable position of being a challenger brand in its home market, as well as in the two largest total addressable markets for infant formula globally.



### AUSTRALIA

Bubs® Infant Formula revenue remains in double-digit growth.

Bubs is Australia's fastest growing infant formula manufacturer with market share gains outpacing the category.<sup>1</sup>

**1HFY23: OUTPERFORM**  
*Progressing ahead of plan*

### CHINA

China's prolonged lockdowns and widespread COVID outbreaks led to significant channel disruption and downturn in 1HFY23 sales.

With the change in China's COVID policy and reopened borders, the Company expects a steady growth rate towards the end of 2HFY23.

**1HFY23: UNDERPERFORM**  
*Progress interrupted*

### USA

Bubs first mover advantage led to accelerated market regulatory access and >6,500 retail footprint that would normally have taken years to achieve.

We expect a long runway of steady growth as Bubs® brand captures the trust of American families.

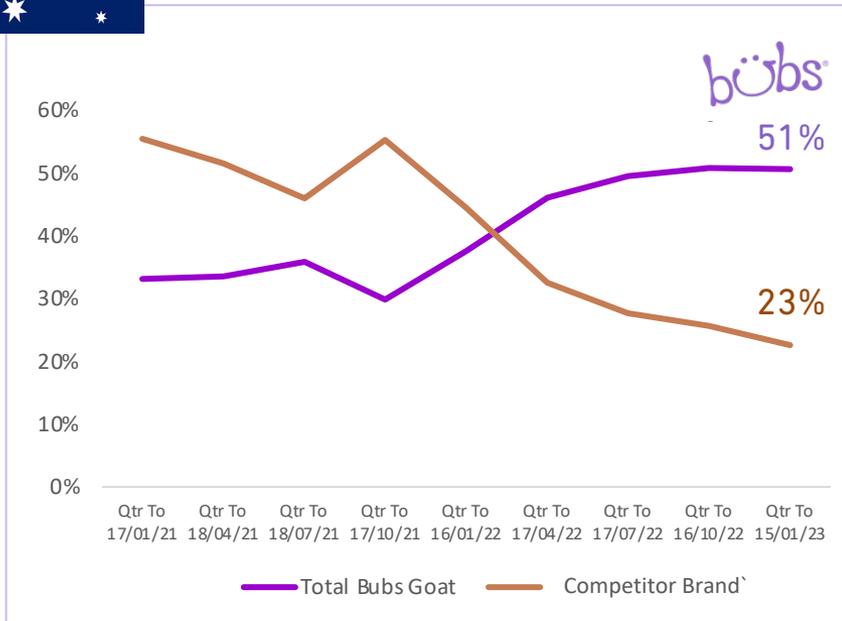
**1HFY23: HEADSTART**  
*Fast-tracked market access*

# NO.1 GOAT FORMULA IN AUSTRALIA & USA

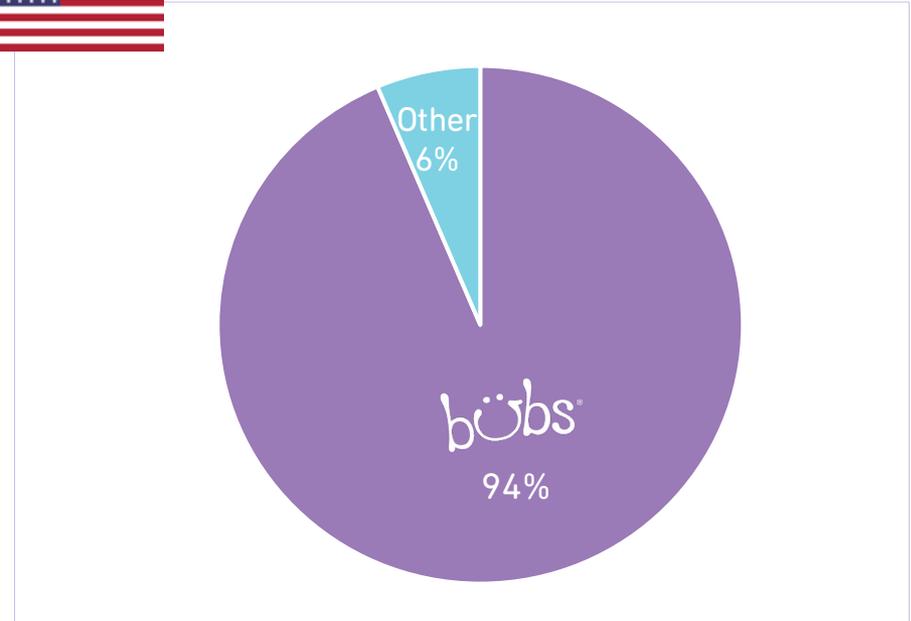
Bubs is the clear market leader in its hero product segment, overtaking long-time market leader in Australia and pioneering the category in the USA.



AUSTRALIA MARKET SHARE %  
TOTAL GOAT FORMULA<sup>1</sup>



USA MARKET SHARE %  
TOTAL GOAT FORMULA<sup>2</sup>



<sup>1</sup>IRI Scan Data, Total Infant Formula Category Retail Scan Sales (\$000's) in Coles, Woolworths and Chemist Warehouse combined to MAT 15/01/23

<sup>2</sup>IRI Scan Data, Total US Multi-Outlet Combined (Nb. Excludes Online) 12 weeks to 05/02/23

# REGULATORY MILESTONES IN BOTH KEY MARKETS

Bubs made significant advances with regulatory pathways in both the USA and China during 1HFY23.

## US FDA Transition Plan



**May 2022:** FDA exercised Enforcement Discretion for all 6 Bubs Formulas



**Dec 2022:** FDA issues Bubs a Letter of Acknowledgement for Bubs to proceed with permanent regulatory pathway



**Oct 2024:** Deadline to submit permanent infant formula submission to FDA



**July 2022:** FDA announces Bubs can stay in the US under Enforcement Discretion until 18 Oct 2025



**Jun 2023:** PER (Protein Efficiency Ratio) Study data due



**Sep 2024:** GMS (Growth Monitoring Study) clinical trial data due



**Oct 2025:** Deadline for FDA No Objection and Transition Guidance ends

## China 2.0 SAMR Pathway



**Sept 2022:** Bubs enters binding agreements to establish Joint Venture in China



**Jan 2023:** Bubs finalises JV agreement



Awaiting SAMR approval



Preparation of application with JV partner to renew existing SAMR slot under Bubs brand and formulated to new GB standards to be manufactured in China



SAMR submission lodged

IH FY23  
FINANCIAL  
REVIEW



# 1HFY23 FINANCIAL RESULTS

	1HFY23 (\$m)	1HFY22 (\$m)	% vs pcp
Gross revenue <sup>1</sup>	37.9	38.5	-1%
Revenue	31.5	33.6	-6%
Gross margin	2.5	12.7	
Other income / (expense)	(0.4)	0.3	
Operating expenses:			
Distribution	1.9	1.3	41%
Marketing	6.7	4.0	67%
Employee costs	7.8	3.7	107%
Admin & other <sup>2</sup>	7.9	2.9	171%
Impairment	20.0	-	
Statutory EBITDA (loss) / profit	(42.0)	1.2	
Underlying EBITDA (loss) / profit <sup>3</sup>	(22.0)	1.2	

## FINANCIAL PERFORMANCE

- Group revenue \$31.5m, down 6%. Group branded products revenue<sup>4</sup> \$30.1m, up 12% pcp driven by contribution from the US market which was offset by soft performance in China.
- Gross margin decreased to 8% due to the \$8.4m inventory provision balance, driven by volatile trading conditions and slower than expected consumer offtake in key markets with no historical pattern. Product margin<sup>5</sup> improved to 35% due to increased contribution from the USA, continuing optimisation of product mix and consistent trade spend investment.
- Operating expenses<sup>6</sup> over revenue ratio increased from 36% in 1HFY22 to 72%, primarily due to:
  - Increases in employee costs to support organisational capability to establish and sustain the long-term growth in key markets. The balance also includes \$2.0m share based payments.
  - Increases in administrative and other costs driven by increases to the doubtful debt provision \$2.1m, and legal, IP and regulatory advisory fees associated with establishing Bubs' presence in the USA.
  - Increases in marketing investment attributable to the upfront investment in brand awareness and costs associated with new customer acquisitions in the USA which has resulted in commensurable revenue.
- Impairment - a total of \$20.0 million non-cash impairment relating to the Deloraine Dairy CGU was recognised due to the timing of SAMR resubmission for the three slots for which nomination rights are held by the Australian facility.

<sup>1</sup> 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.

<sup>2</sup> Administration and other costs do not include depreciation and amortisation. This is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

<sup>3</sup> Underlying EBITDA is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

<sup>4</sup> Branded products excludes canning services, raw material and bulk powder sales. Branded products revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Branded products revenue \$30.1m = Group revenue 31.5m – canning service, bulk powder and ingredients sales \$1.4m

<sup>5</sup> Product margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Product margin is calculated as (revenue – production costs) / revenue.

Gross margin is calculated as (revenue – cost of sales) / revenue. Cost of sales includes production costs and inventory provision.

<sup>6</sup> Operating expenses exclude share-based payments and depreciation and amortisation. This is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review.

# FINANCIAL HIGHLIGHTS

Product margin<sup>2</sup> improvements driven by optimisation in product mix and entry into the USA were underpinned by double-digit growth in infant formula.



**\$30.1m**  
**+12% pcp**  
Revenue for  
branded products<sup>1</sup>

**35%**  
Group Product Margin<sup>2</sup>  
(FY22: 27%)

**39%**  
Infant Formula Product Margin<sup>2</sup>  
(FY22: 34%)

**+44%**  
Infant Formula Revenue  
growth pcp

**+36%**  
Domestic Revenue  
growth pcp

**+63%**  
International Revenue  
(inc. USA) growth pcp

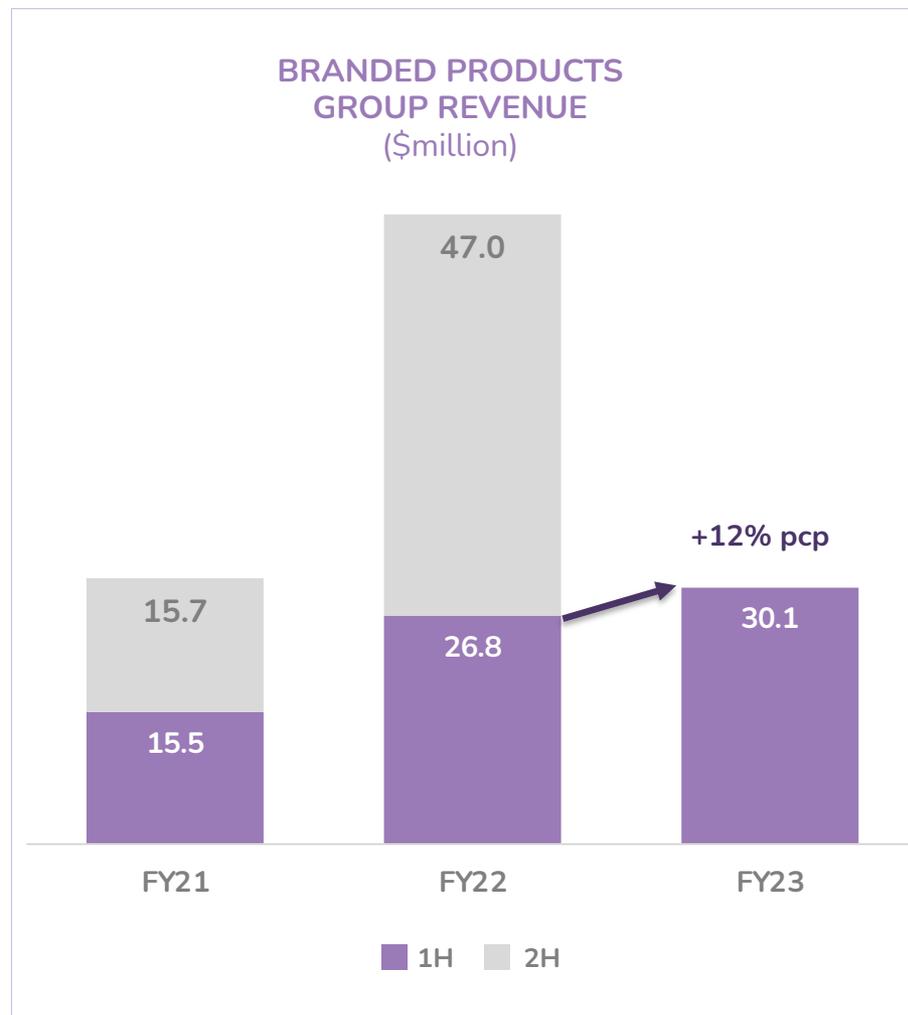
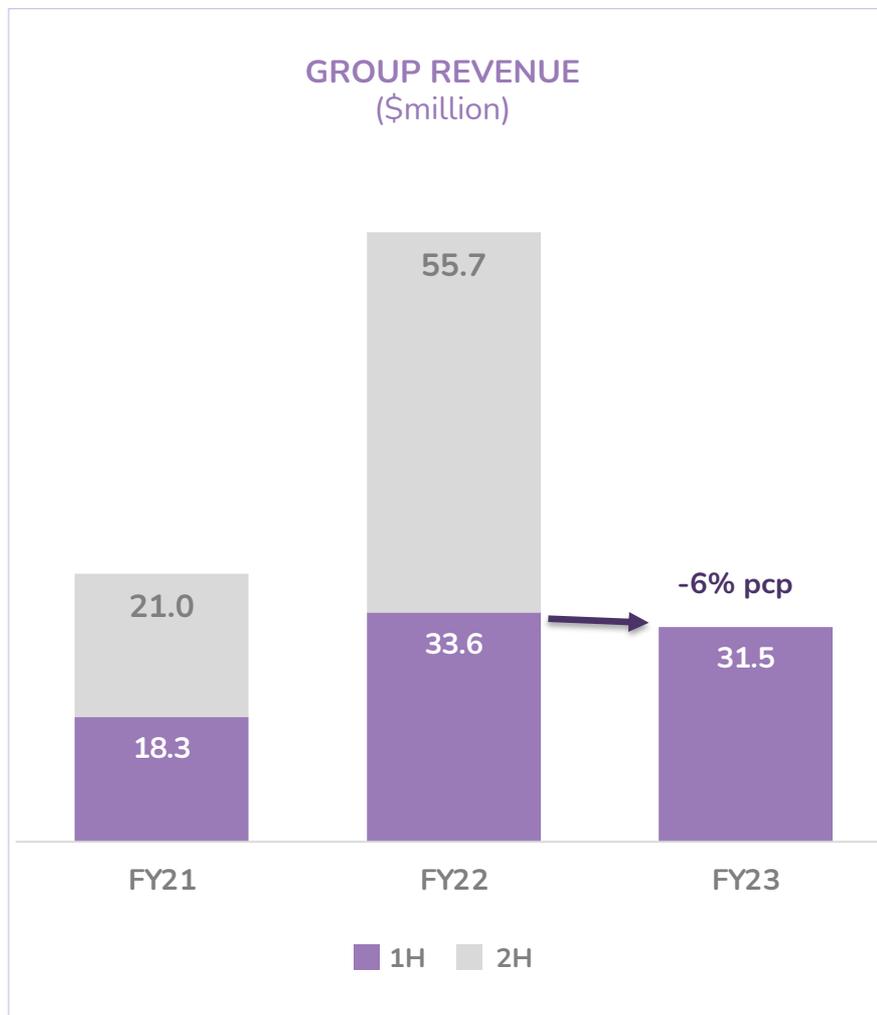
**\$51.4m**  
Cash Reserves at 31 Dec 2022

<sup>1</sup> Branded products excludes canning services, raw material and bulk powder sales. Branded products revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Branded products revenue \$30.1m = Group revenue 31.5m – canning service, bulk powder and ingredients sales \$1.4m.

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## DOUBLE DIGIT GROWTH IN BRANDED PRODUCTS<sup>1</sup> REVENUE

Group revenue growth was constrained by the soft performance in China and \$5.3 million in low margin bulk ingredient sales in the same period last year was not replicated. However, the Group Revenue of branded products (excluding raw materials, canning services and bulk powder sales) remains in double-digit growth.

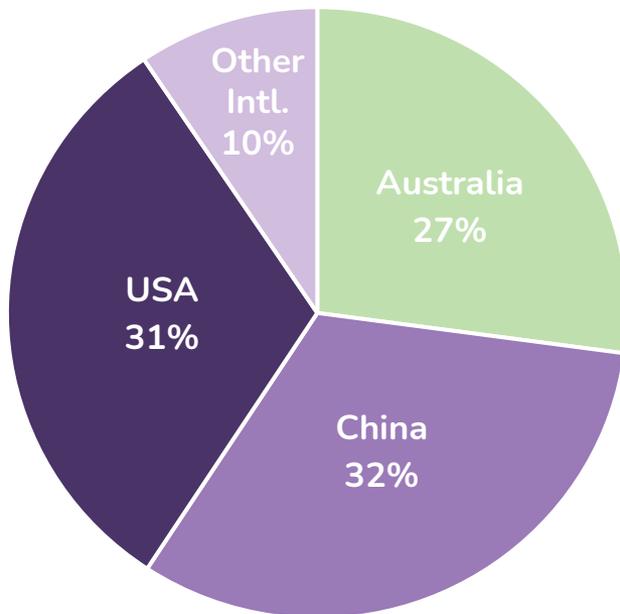


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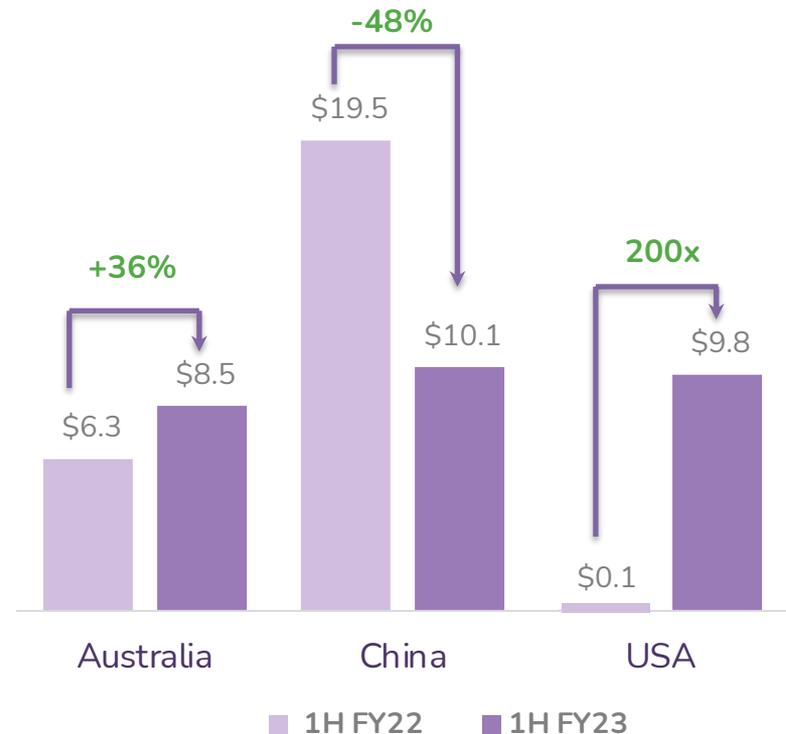
## DIVERSIFIED MARKET MIX

Market diversification with comparable revenue contribution from all 3 key markets, providing multiple growth levers to mitigate concentration risk and to allow for response time to volatile macro forces.

1H FY23 REGIONAL REVENUE CONTRIBUTION



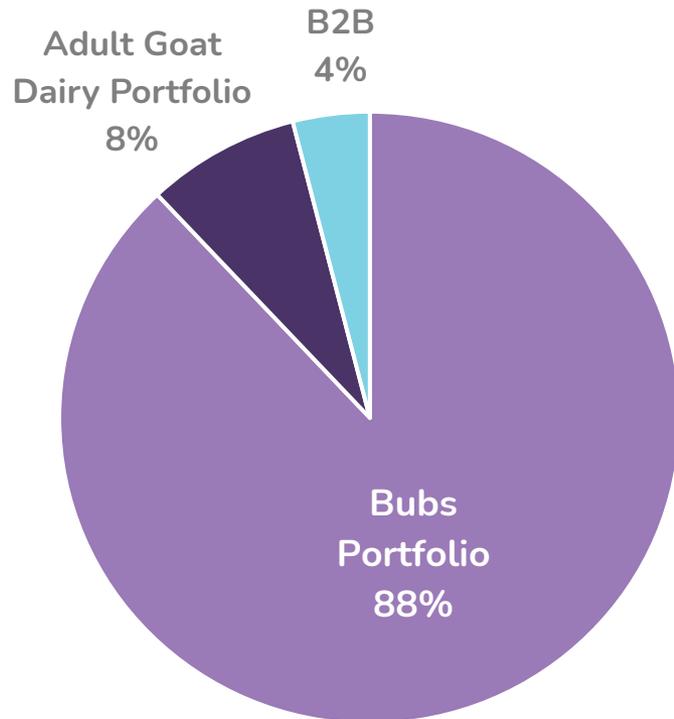
KEY MARKETS REVENUE CHANGE (\$million)



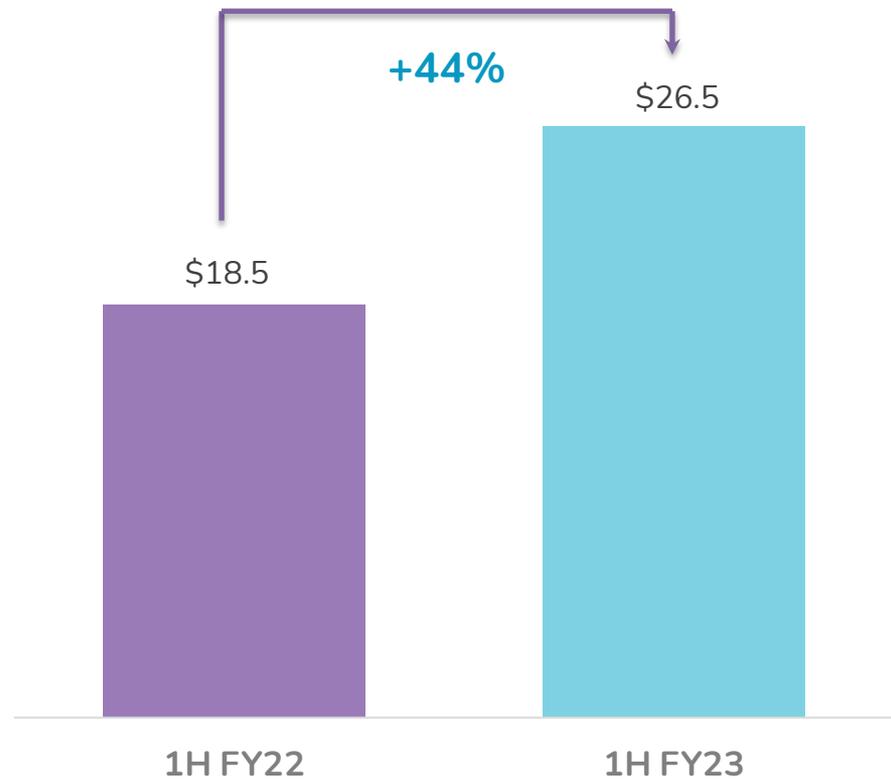
# OPTIMISED PRODUCT MIX

Bubs® Infant Formula is the Group's most profitable product segment, accounting for 88% revenue contribution and delivering 44% revenue growth pcp.

1H FY23 PRODUCT REVENUE CONTRIBUTION

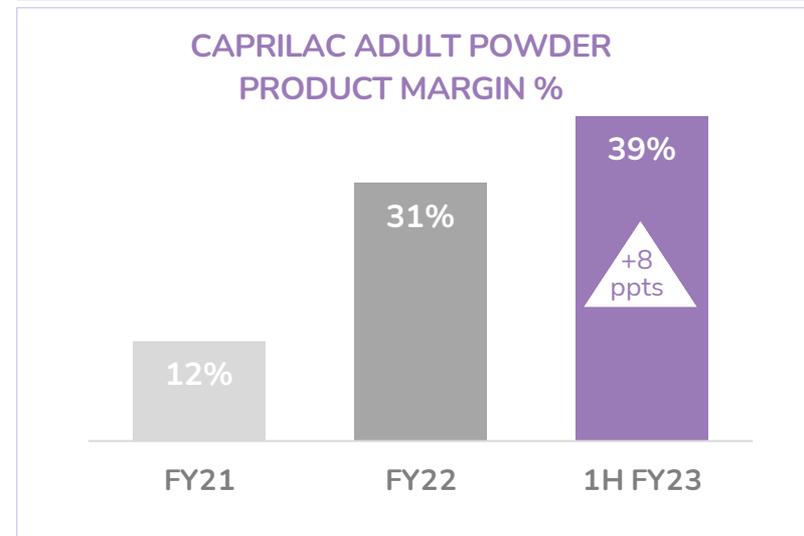
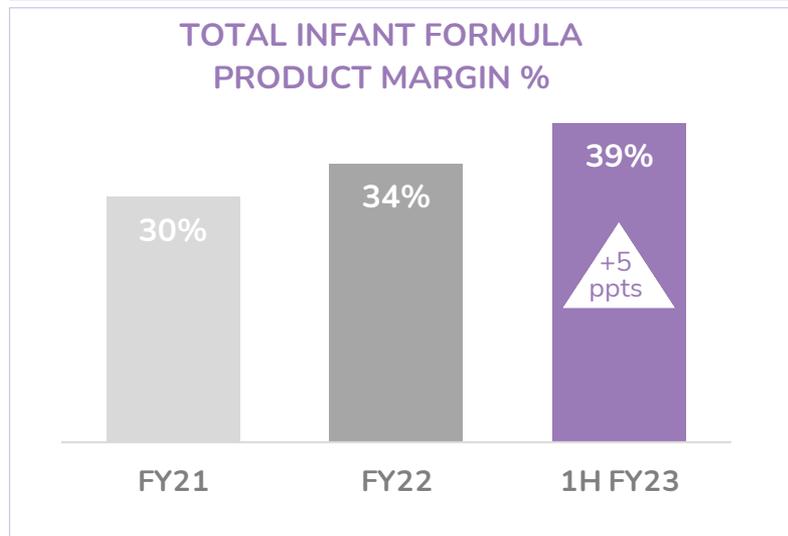
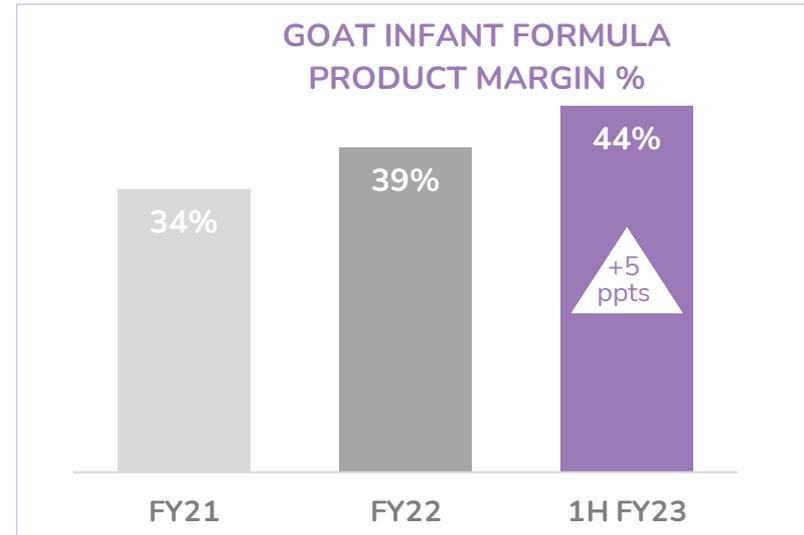
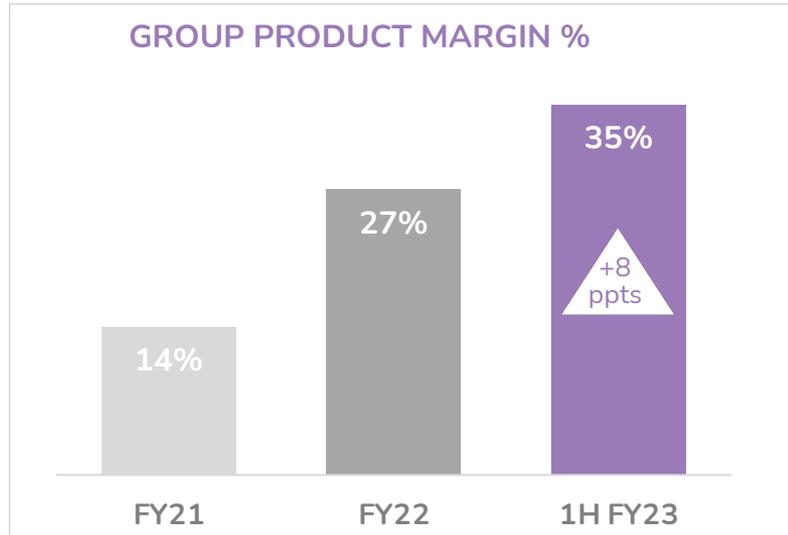


INFANT FORMULA REVENUE (\$million)



# SIGNIFICANT IMPROVEMENT IN PRODUCT MARGINS<sup>1</sup>

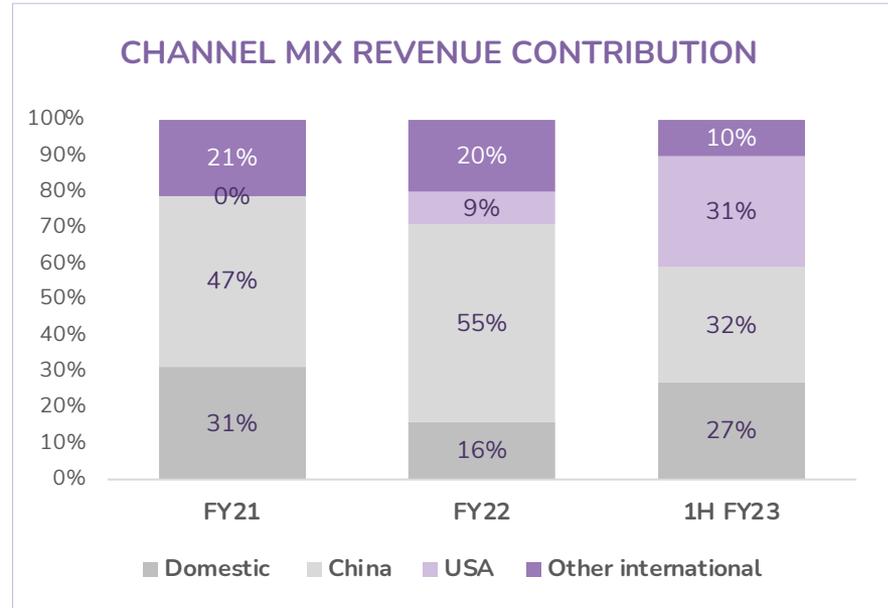
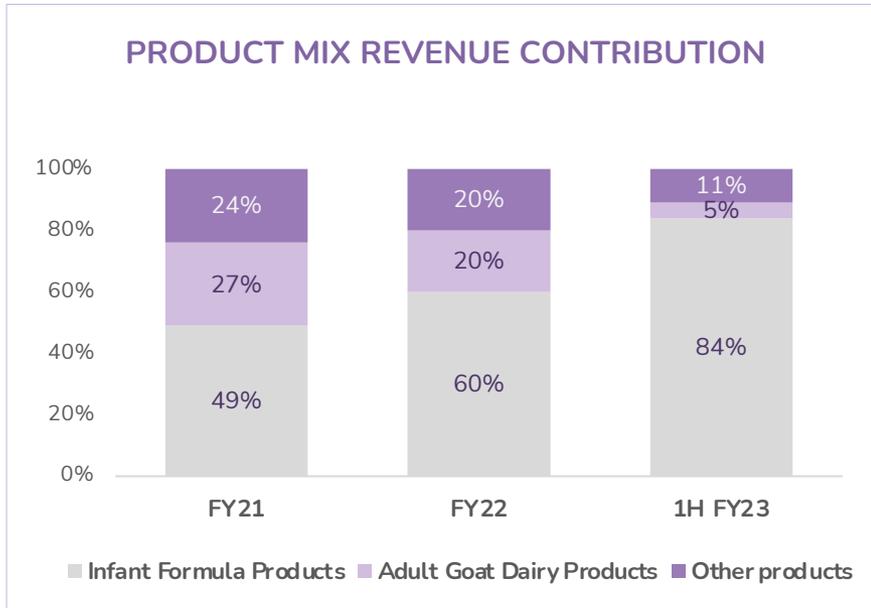
Product Margins<sup>1</sup> for all key portfolio segments were at record highs due to the increased contribution from the USA, controlled and consistent rates of trade spend, and optimisation of product mix.



<sup>1</sup> Product margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Product margin is calculated as (revenue – production costs) / revenue. Gross margin is calculated as (revenue – cost of sales) / revenue. Cost of sales includes production costs and inventory provision.

# PRODUCT MARGIN<sup>1</sup> DRIVERS

Optimised Product and Channel Mix offset increased costs in raw materials and inflationary pressure.

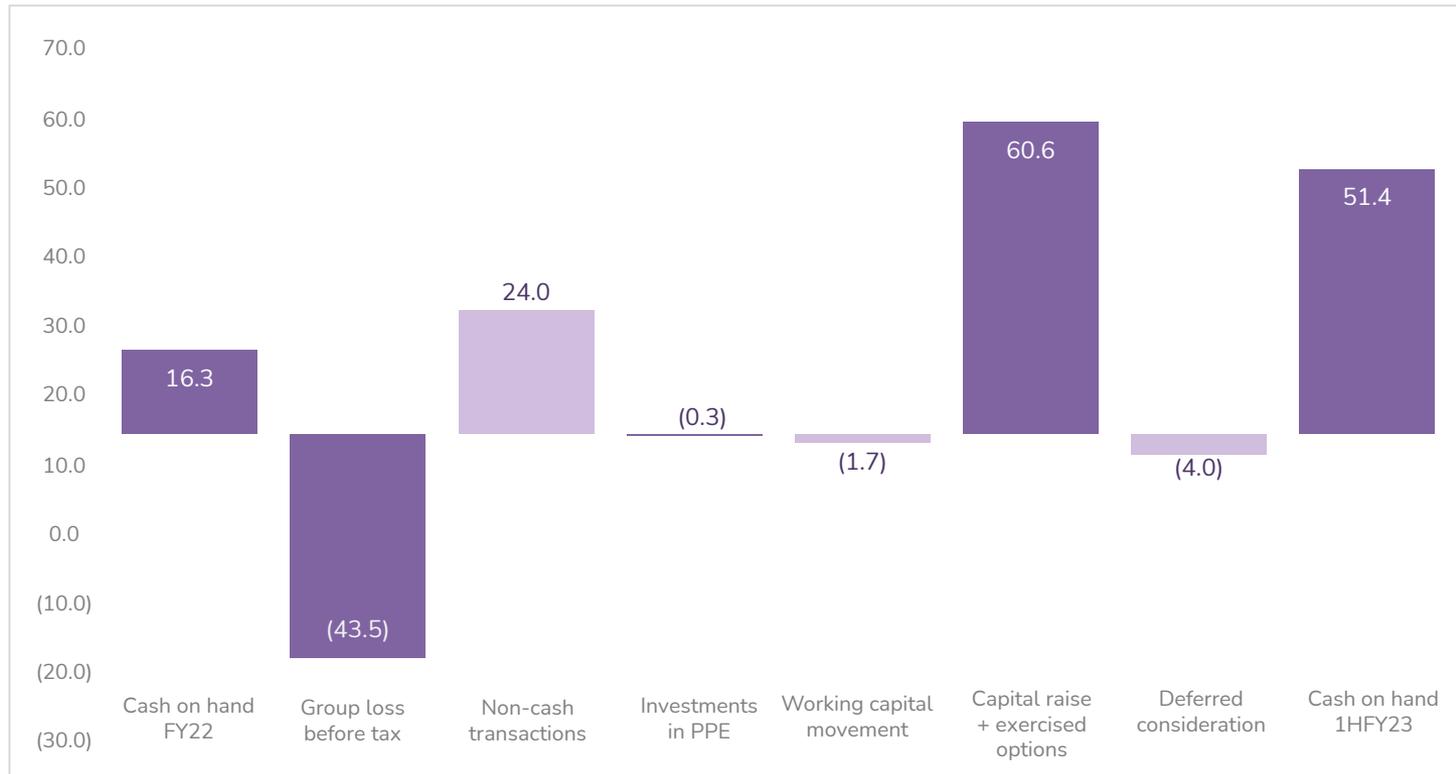


- **Optimised Product Mix:** Most profitable portfolio segment, Infant Formula sales contribution increased to 84% with further increase expected in 2HFY23.
- **Optimised Channel Mix:** China and USA, our most profitable markets, contributing 63% of Group revenue.
- **Efficient Trade Spend Management:** Trade Spend % for branded products is consistent with FY22.
- **Inflationary Mitigation:** Increases in cost of goods were offset by select price increases globally, production and supply chain efficiencies, and other cost mitigation initiatives.

<sup>1</sup> Product margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Product margin is calculated as (revenue – production costs) / revenue. Gross margin is calculated as (revenue – cost of sales) / revenue. Cost of sales includes production costs and inventory provision.

## STRONG BALANCE SHEET SUPPORTS GROWTH INITIATIVES

Following a successful Capital Raising of \$63m in July 2022, Bubs maintains a strong balance sheet with sufficient headroom to fund future growth trajectory.



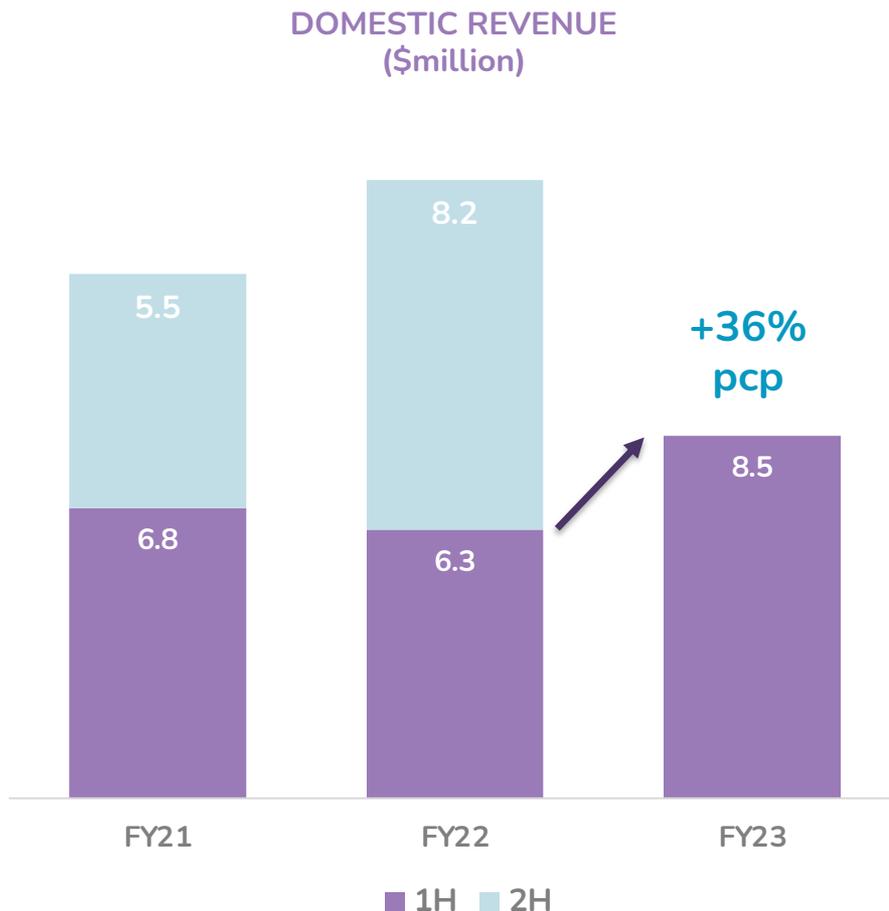
- Cash position \$51.4m at 31 December 2022 with minimal external debt.
- Inventory position is higher than the target position, due to longer lead time to source raw materials and soft performance in 1HFY23. Inventory position is expected to improve in 2HFY23 driven by continued growth in the USA and accelerated growth in China.
- Decrease in trade and other receivables is driven by phasing of sales.
- Decrease in trade and other payables is driven by timing of operating expenses and inventory procurement activities in Q2FY23.

# Key Markets PERFORMANCE



# AUSTRALIA IN SOLID GROWTH

Bubs domestic growth strategy is on track.



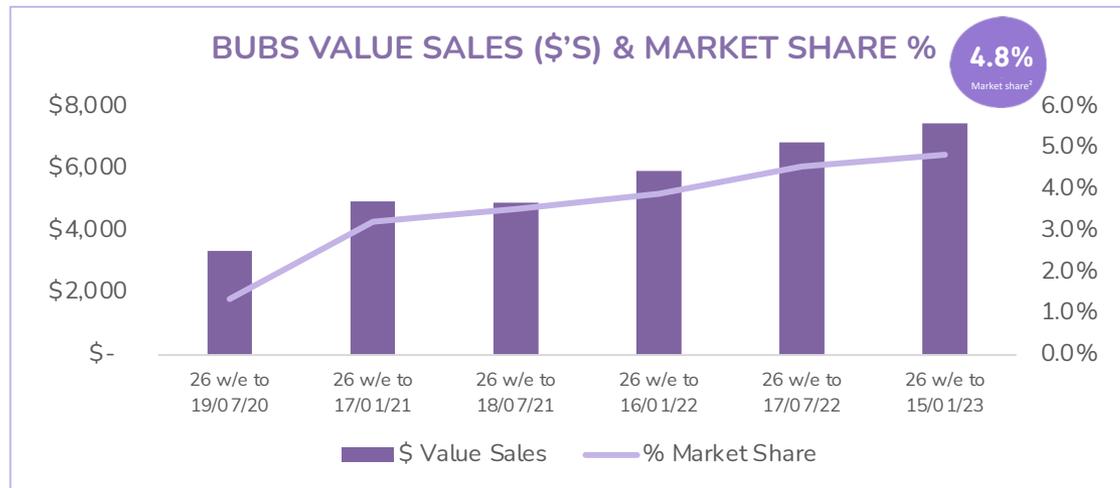
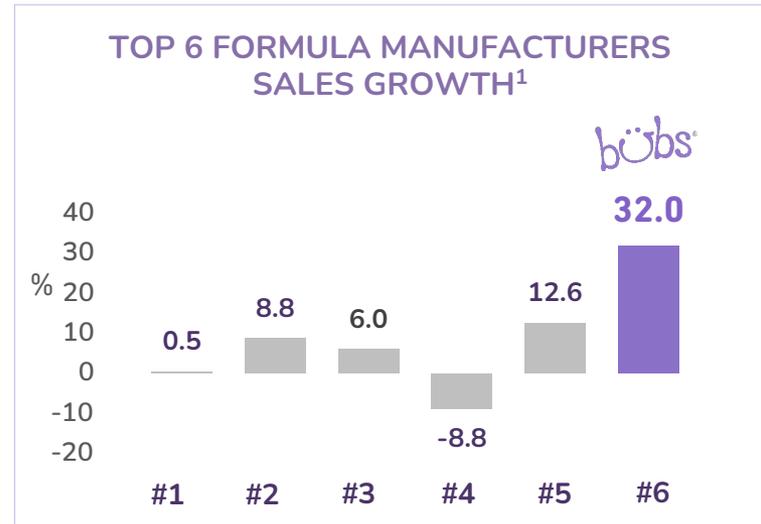
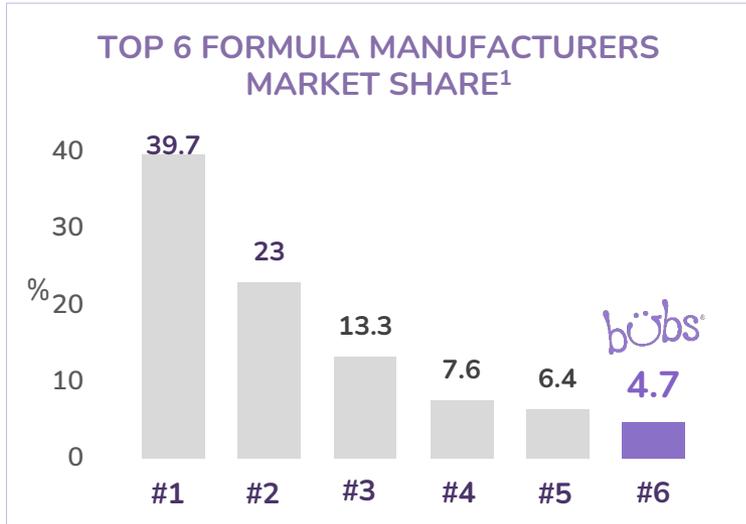
## OPERATIONAL HIGHLIGHTS

- Bubs® is an authentic Australian made and owned brand, trusted for 17 years as an infant nutrition specialist.
- Growth driven by growing consumer base and portfolio expansion.
- Strong national retail footprint in Coles, Woolworths and Chemist Warehouse.
- Bubs® is the category leader in the goat infant formula segment, representing over half of the total goat formula market.<sup>1</sup>
- Bubs Organic® Grass-fed Formula is the No.2 brand in the organic segment with scan sales up 42 percent.<sup>1</sup>

<sup>1</sup>IRI Scan Data, Total Infant Formula Category Retail Scan Sales (\$000's) in Coles, Woolworths and Chemist Warehouse combined to MAT 15/01/23.

# AUSTRALIA: 32% INCREASE IN SCAN VALUE GROWTH<sup>1</sup>

Domestic retail scan data shows Bübs remains the fastest growing infant formula company in the top six manufacturers, outpacing the infant formula category growth rate<sup>1</sup>.

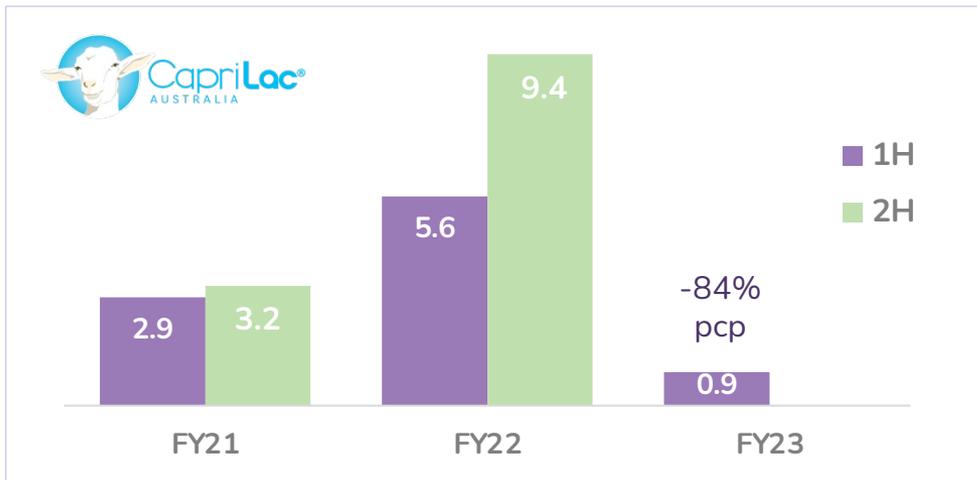
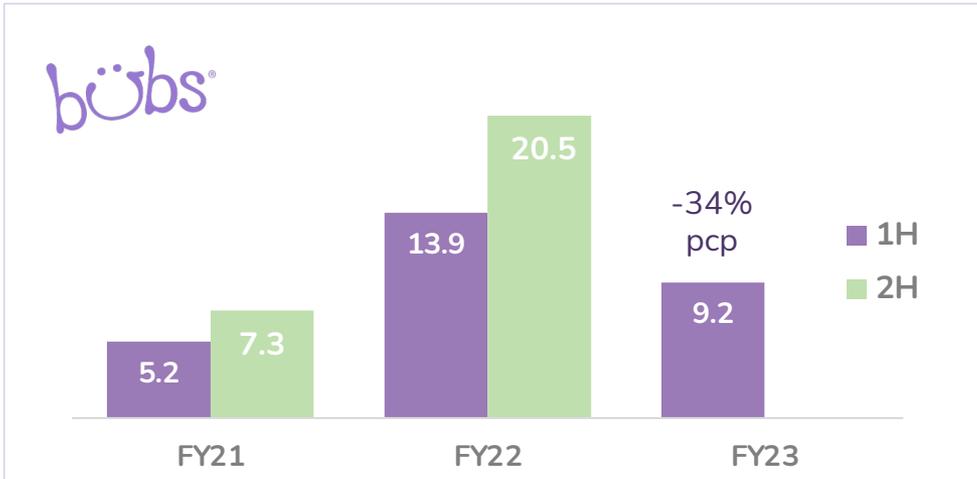


<sup>1</sup>IRI Scan Data, Total Infant Formula Category Retail Scan Sales (\$000's) in Coles, Woolworths and Chemist Warehouse combined to MAT 15/01/23

## CHINA GROWTH DISRUPTED

Market and trading conditions were very challenging in China leading to an unexpected sharp downturn in sales, with adult milk powder impacted more than infant formula.

CHINA REVENUE (\$million)



## OPERATIONAL HEADWINDS

- Lockdowns and COVID outbreaks caused widespread channel disruption.
- Commodity milk powder products like CapriLac® were more severely impacted given they are not "essential" like infant formula. CapriLac® is seasonal and price sensitive (lower channel margin) compared to infant formula.
- The transition to Bubs' new distribution model was interrupted with limited growth in Online-to-Offline (O2O) store expansion, but Bubs' channel pricing was upheld.
- With restrictions easing and borders reopening, the Company expects existing inventory in the Channel to clear and return to a steady growth rate towards the end of 2HFY23.
- Consolidation of ~450 SAMR brands is expected due to new GB standards. Likely to lead to brand switching and an opportunity for customer acquisition.

# CHINA INNOVATION IN MARKETING BUBS' IP

Metaverse campaign launch showcasing Bubs characters and branded asset play collectibles.

 Total Exposure  
**150M+**

 Total Engagement  
**220K+**

## Key Assets



Supreme Bunny Collectibles

## Celebrity Exposure



CNY Gift Box Opening



TV Show exposure

## 360° Social Exposure



RED Opening Screen



Surprise Gift Box



KOLs



## USA FAST-TRACKED KEY MARKET

As the 2<sup>nd</sup> largest addressable market for infant formula, Bubs is committed to the USA as a strategic priority long-term.



## OPERATIONAL HIGHLIGHTS

- First mover advantage provided Bubs with accelerated market access to a tightly held market during Biden's Operation Fly Formula initiative.
- In 1HFY23, USA already contributed around a third of group revenue.
- Bubs has secured ongoing placement in 3 of the Top 4 Big Box planograms for 2023 (with the 4<sup>th</sup> currently ranged and planogram fixture pending).
- E-Commerce strategy launched in Nov with Amazon already Bubs' No.1 sales channel.
- Specialised cross-functional team established in Los Angeles.
- USA tailored brand refresh and growth marketing campaigns launched in January.



# USA NATIONAL FOOTPRINT IN ALL MAJOR RETAILERS

Bubs has quickly established an enviable retail footprint in 42 states, including the Top 4 retail giants: Walmart, Target, Kroger and Albertsons-Safeway + health food chains, drug stores and e-Commerce.

**BUBS IS RANGED IN >6,500 STORES NATIONWIDE**

**Big Box National Retail**

**Regional Grocery Stores**

**Drug Stores**

**Verticals**

**E-Commerce**

**Wholesale**



# Operational FOCUS & OUTLOOK

# FOCUS ON OPERATIONAL EXECUTION

2HFY23 focus is on precision in operational execution to improve profitability and cash runway.

## 1HFY23 OPERATIONAL HIGHLIGHTS

- ✔ Optimised Product and Channel Mix
- ✔ US FDA and China SAMR regulatory milestones on track
- ✔ Group Product Margin improvements
- ✔ Distribution footprint expansion in Australia and USA
- ✔ Established office and cross-functional team (15 PAX) in USA
- ✔ Domestic market and portfolio share gains

## 2HFY23 FOCUS OPERATIONAL HEADWINDS

- ☀ Revenue growth in Key Markets
- ☀ Optimise inventory position
  - reduce inventory balance
  - improve forecast accuracy
  - reduce weeks of cover until China sales trend stabilises
  - reversal of inventory provision
- ☀ Improve Operational Cash Conversion
  - shorten supply chain cash cycle
  - reduce direct costs
  - recover doubtful debts provision

## OUTLOOK

Bubs remains confident in its strategic growth strategies and pathway to sustained earnings growth.

Although the downturn in China's first-half revenue was below expectation and offset the performance delivered in other key markets, the Company remains confident in its strategic roadmap and global growth strategy. Bubs' trajectory and healthy product margins provide a viable pathway to sustained profitability.

Despite the challenging market conditions and channel headwinds in 1HFY23, we expect the growth rate in China to return, following the easing of restrictions and borders reopening, with momentum building in the fourth quarter. The next phase of growth is planned to incorporate China's general trade. Bubs® portfolio sits in the growing ultra premium segment at an affordable premium price point for families that are mindful of cost of living.

The accelerated entry into the United States provided important global diversification in Bubs' core business, and the Company sees the USA as remaining a strategic priority for the long-term with significant upside potential. As the trading environment normalises, Bubs is charting steady growth based on data-driven sales and growth marketing metrics to optimise our return on investment.

It is expected the inventory position and operating cash conversion will improve in 1HFY24.

Bubs is entering a new phase of growth runway and maturity as a global infant nutrition specialist, and has sufficient capital to realise its growth ambitions.



