



29 April 2020

Candy Club B2B and B2C growth is faster than expected in an unprecedented retail environment

Quarterly Activities Report & Appendix 4C for the quarter ended 31 March 2020

Melbourne, Australia – Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") announces its results for the three months ending 31 March 2020 ("**1Q FY2020**").

1Q FY2020 reflects another record quarter of rapid acceleration in the Company's performance in both the business-to-business ("**B2B**") and business-to-consumer ("**B2C**") segments. This includes the acquisition of new retail and e-commerce customers that will complement Candy Club's growing list of B2B clients.

The early indications are that Candy Club's growth trajectory will not be affected by COVID-19 and its impact on US retail sales, following another strong month in April.

Key highlights for 1Q FY2020 include:

- Candy Club recorded significant revenue growth in both segments during the quarter, mainly due to the culmination of the Company's investments in the B2B segment and a strategy change in the B2C segment.
- Candy Club is in a strong cash position. The Company has access to \$3.0 million in incremental working capital from its recent financing activities, allowing the Company to fund future growth plans. Candy Club is also on track to achieve profitability with no shareholder dilution.
- Total gross revenues grew 44% quarter-on-quarter ("**QoQ**") to \$2.3 million, mainly driven by growth in the B2B segment. Gross margins stood at 42% for the quarter. EBITDA loss improved QoQ by 5% to \$1.1 million.
- On a month-on-month basis ("**MoM**"), the Company expects its April's total gross revenue and B2B revenue to grow by more than 40% and 70%, respectively, while EBITDA loss narrows by more than 50% MoM. This substantial growth is a testament to the Company's strategy as well as the growing strength of Candy Club's brand name, setting the Company up for a strong start in 2Q FY2020.
- Despite a significant shut down of traditional "bricks-and-mortar" stores in the US, the Company now expects to achieve 7500 retail doors by the end of April 2020. The Company's top 10 customers have, on average, had a re-order rate of 80%.
- Net operating cash flow ("**NOCF**") improved QoQ, bringing it to -\$1.9 million. NOCF is anticipated to improve further by 30% QoQ in 2Q FY2020 as the business continues to scale with improved gross margins. Candy Club is on track to record positive cash flow on an operating basis later in 2020.
- NOCF would have been -\$1.3 million before the depreciation impact of AUD against USD and excluding the impact of legacy payments from prior periods. The Company is pleased to inform shareholders that there will no longer be any legacy payment impact moving forward.

Note: The currency expressed in this document is in Australian Dollars unless otherwise stated.

Operational Performance

Candy Club recorded significant revenue growth in both its B2B and B2C segments, mainly due to the culmination of Candy Club's investments in the B2B segment and a change in the B2C segment's strategy.

This bodes well as the Company is looking for new avenues to grow the business, in particular when traditional retail customers resume operations post-COVID-19 pandemic.

The B2B segment continues to be the main focus, with a strong emphasis on retailers and e-commerce customers that experienced an upturn in sales during this pandemic period. The segment showed rapid and accelerating growth notwithstanding the challenging retail environment in the US. This validates the Company's "white space strategy", which is looking for retail opportunities within existing retail chains.

Candy Club sees vast potential to penetrate the confectionery industry sector further given the increased interest despite the current unprecedented operating conditions.

In the B2C segment, Candy Club saw an increased interest in its subscription services due to the "shelter-in-place" order in the US. The unexpected spike in new subscribers has resulted in cost per acquisition ("CPA") to fall to US\$3 per customer during the quarter from sub-US\$20 levels in 4Q FY2019.

As Candy Club continues to build scale in the segment, it expects CPA to remain within the single-digit range.

"Due to the optimization in CPA, the B2C segment has enabled Candy Club's subscription box business model to break even on the first consignment to customers. This is an exceptional achievement as there are very few if any, subscription box business models that turn profitable by the second consignment to customers," said Candy Club founder and CEO Mr Keith Cohn.

Financial Performance

Candy Club reported total gross revenues of \$2.3 million in 1Q FY2020, representing a 44% growth QoQ.

The main contributor to this increase is Candy Club's B2B segment, which grew 55% QoQ to \$1.1 million, including exchange rate movements. Excluding exchange rate movements, the QoQ growth in total gross and B2B revenue would be at 30% and 40%, respectively.

This is a remarkable achievement given that the confectionery industry is seasonal, with the October to December quarter (4Q) traditionally more robust due to the festive season.

Gross margins continued to improve during the quarter, standing at 42% vs. 40% in 4Q FY2019.

EBITDA loss improved by 5% QoQ to \$1.1 million.

Despite the current operating environment, Candy Club expects April's total gross and B2B revenue to grow MoM by more than 40% and 70%, respectively.

Candy Club expects EBITDA loss to narrow by more than 50% MoM in April, due to minimal incremental operating expenses relative to revenue growth. This substantial growth is a testament to the Company's strategy as well as the growing strength of Candy Club's brand name, setting the Company up for a strong start in 2Q FY2020.

NOCF continued to improve during the quarter, bringing it to -\$1.9 million from -\$2.1 million in 4Q FY2019. NOCF would have been -\$1.3 million before the depreciation impact of AUD against USD and excluding the impact of legacy payments from prior periods. The Company is pleased to inform shareholders that there will no longer be any legacy payment impact moving forward.

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NOCF is anticipated to improve further by 30% QoQ in 2Q FY2020 as the business continues to scale with improved gross margins. Candy Club is on track to record positive cash flow on an operating basis later in 2020.

Financing Update

As previously announced, Candy Club raised \$1.2 million this year in the form of equity and convertible debt.

In addition, the Company has secured inventory and accounts receivable financing, giving Candy Club access to \$3.0 million in incremental working capital. This is inclusive of the forgivable \$466,000 Paycheck Protection Program loan that Candy Club has successfully secured from the US Government as part of the Payroll Protection Act.

This will allow the Company to fund future growth plans as well as the ability to achieve profitability with no shareholder dilution.

The \$3.0 million is not reflected in the current quarter's cash flow statement as the funds are attributable to 2Q FY2020.

Commentary

Industry expert studies¹ show that candy sales historically increase in recessionary conditions as consumers resort to comfort food, a trend that has been observed since the Global Financial Crisis. Following this, Candy Club expects to benefit from a similar trend as a result of the COVID-19 pandemic.

"Candy Club's extremely strong performance during a worldwide pandemic is a testament to the strength of the Company's business model, product-market fit, management team and their ability to find new customers and execute a planned strategy creatively. Once traditional brick and mortar retailers begin to open their doors and with the Company's financing challenges finally behind us, Candy Club is in a position to scale the business to profitability in the latter part of 2020," said Candy Club Chairman James Baillieu.

Justyn Stedwell

Company Secretary

On behalf of the Board of Directors
Candy Club Holdings Limited

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¹ IRI: COVID-19 and the Economy: TRACKING THE DRAMATIC PIVOT OF U.S. CONSUMER AND SHOPPER BEHAVIOR, April 3, 2020
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About Candy Club

Candy Club Holdings Limited (Candy Club) is a leading specialty market confectionery company which operates a business-to-business (B2B) and business-to-customer (B2C) segment in the United States of America. Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

Founded in 2015 by serial entrepreneur Keith Cohn, Candy Club executes an omnichannel strategy with a vision to become the world's leading specialty market confectionery company.

Candy Club is headquartered in Los Angeles, California, United States.

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Appendix 4C

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

Name of entity

CANDY CLUB HOLDINGS LIMITED

ABN

96 629 598 778

Quarter ended ("current quarter")

31 MARCH 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	1,677	1,677
1.2 Payments for		
(a) research and development	(24)	(24)
(b) product manufacturing and operating costs	(1,767)	(1,767)
(c) advertising and marketing	(361)	(361)
(d) leased assets	(37)	(37)
(e) staff costs	(749)	(749)
(f) administration and corporate costs	(585)	(585)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(76)	(76)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(1,922)	(1,922)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		
(d) investments		
(e) intellectual property		
(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		
	(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	-	-
3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	120	120
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(25)	(25)
3.5	Proceeds from borrowings	1,616	1,616
3.6	Repayment of borrowings	(82)	(82)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	1,629	1,629
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	777	777
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,922)	(1,922)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,629	1,629
4.5	Effect of movement in exchange rates on cash held	58	58
4.6	Cash and cash equivalents at end of period	542	542

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	542	777
5.2	Call deposits		
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)	542	777

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

152

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

6.1 relates to salaries, other employment related costs, consulting fees and directors fees

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

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	690	690
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	690	690

7.5 **Unused financing facilities available at quarter end** 0

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

Amortized 12-Month Loan extended through March 19, 2021 - 16% per annum Interest Rate - Balance as of 3/31/20 - \$420,817 USD

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,922)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	542
8.3 Unused finance facilities available at quarter end (Item 7.5)	0
8.4 Total available funding (Item 8.2 + Item 8.3)	542
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.28

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

- Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: No. Cash outflows are decreasing as the business scales up in both our B2C subscription and B2B wholesale business. We have also taken significant cost cutting measures on all operating expenses due to the recent Covid-19 pandemic. Net cash outflows are expected to drop by more than 30% from the prior quarter.

- Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: Yes. In April Candy Club has secured \$3m in incremental financing through inventory and AR financing lines as well as a forgivable small business loan (SBA) from the US government through the Payroll Protection Program (PPP) due to the Covid-19 crisis.

- Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: Yes. The combination of increased revenue, decreased cash outflows and the incremental \$3m in financing (discussed above) means that the Company has the working capital it requires to continue operations and meet its business objectives.

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 April 2020

Authorised by: The Board of Directors

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.