

Candy Club achieves record 1Q FY2021 as B2B revenue up 423% YoY

Quarterly Activities Report & Appendix 4C for the quarter ended 31 March 2021

Melbourne, Australia – Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") is pleased to announce its results for the three months ending 31 March 2021 ("**1Q FY2021**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

Total gross revenue \$4.13 million was achieved in 1Q FY2021, representing an increase of 192% YoY. This was driven by its business-to-business ("**B2B**") division which posted \$3.4 million gross revenue during the quarter. This is a 21% increase on a quarter-on-quarter ("**QoQ**"), or an impressive 423% growth year-on-year ("**YoY**"), especially considering the persistent headwinds created by the COVID-19 pandemic. The Company's B2C business also experienced good growth in the period as it was up 49% versus the prior quarter.

	1Q FY2020 (actual)	4Q FY2020 (actual)	1Q FY2021 (estimate)	QoQ Change	YoY Change
Total gross revenue	\$1.41m	\$3.29m	\$4.13m	26%	192%
B2B revenue	\$0.65m	\$2.80m	\$3.40m	21%	423%
B2C revenue	\$0.76m	\$0.49m	\$0.73m	49%	-4%
Gross margins	42%	41%	42%	1 ppts	unchanged
EBITDA*	-\$0.81m	-\$0.72m	-\$1.03m	-43%	-27%
NOCF	-\$1.92m	-\$1.19m	-\$1.52m	-28%	21%

*EBITDA is reported on an operating basis prior to any non-cash audit adjustments and accruals

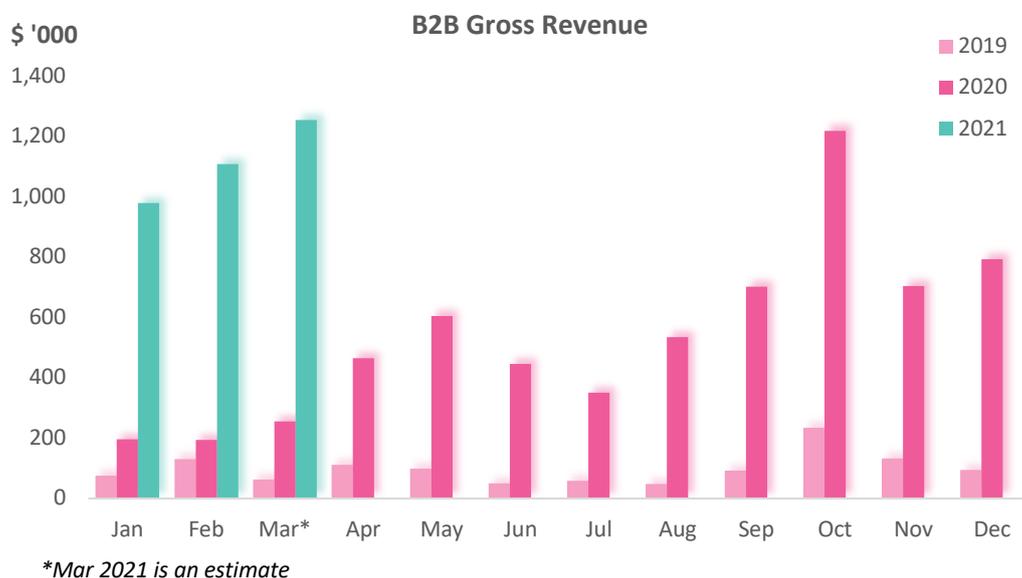
Note: Figures in value and percentages tabulated above may not add up due to rounding and are unaudited figures.

The Company's total number of retail doors grew further to more than 17,000, while the number of B2B customers exceeded 10,000 as of 1Q FY2021. Our larger brick-and-mortar customers continued to grow QoQ, with the majority of our existing national and regional department and gift store chains reordering. The Company also added several impressive new account wins including the national retailer JC Penny. Macy's has expanded Candy Club's presence by selling the Company's candies in more stores and expecting further growth. Re-order rates for the Company's top 25 customers held over 90% for the quarter, including Fresh Markets, Hallmark, Belk and The Paper Store.



Operational Performance

Candy Club's B2B division remained strong in 1Q FY2021, achieving quarterly record revenue of approximately \$3.4 million. The Company's strong performance comes amid the challenging operating environment in the US, which continued to be impacted by the COVID-19 pandemic. While the thousands of small businesses derived from the Company's e-commerce strategy are driving the recent growth, Candy Club expects the traditional brick-and-mortar retailers to significantly grow the Company's overall business by 2H FY2021.



Outlook

As of 31 March 2021, Candy Club had \$1.54 million in cash as well as \$431,000 in borrowing base available under its inventory financing agreement.

On 9 April 2021, Candy Club executed a new, more favourable debt agreement ("**Debt Capital**") with Western Technology Investment (WTI) for a total commitment of \$7.5 million. The first draw is for \$5.0 million, available immediately and the second draw is for \$2.5 million, available if the business meets key performance indicators by August/September 2021.

The Company considers it is currently on track to exceed the agreed KPIs, with no obligation to drawdown the second tranche. With this new debt agreement, Candy Club has fully repaid the existing Crossroads Financial debt agreement.

Additionally, in April 2021, Candy Club completed a private placement ("**Equity Capital**"), raising A\$10.7 million.

With the completion of both the Debt and Equity Capital raise of A\$20.54¹ million, Candy Club believes this will equip the Company with sufficient working capital required to considerably scale the business.

Additional information

The March 2021 quarter is a period which is covered by the Use of Funds Statement as outlined in the Company's Prospectus dated 30 November 2018. Updates to the ASX Listing Rules which were effective from 31 March 2020 now require the Company to provide a comparison of the actual expenditure on individual items in the Use of Funds Statement and an explanation for any material variances in its quarterly reports. A summary of expenditure of the IPO funds raised since listing is set out below:

¹ Based on USD/AUD = 1.31

Use of funds	Funds Raised at IPO and Use of Funds per Prospectus	Actual Expenditure of IPO Funds to 31 March 2021	Variance	
	Amount (A\$)	Amount (A\$)	Amount (A\$)	%
Customer Acquisition	1,135,000	1,376,812	241,812	21%
Increasing Sales Staff	283,750	-	(283,750)	-100%
Acquisition of inventory	851,250	942,029	90,779	11%
Repayment of Promissory notes	620,000	620,000	-	0%
Working Capital	2,134,000	2,085,159	(48,841)	-2%
Total	5,024,000	5,024,000		

Explanation of material differences in the table above:

The Company considers the only material difference relates to increasing sales staff. IPO funds were not used to increase sales staff as intended as existing staff were able to be utilised more actively, while sales and automation enhancements made it possible to add incremental sales staff without increasing overall operating expenses.

The Company has reported its cash flows on a quarterly basis since listing on ASX and considers the use of funds to be consistent with its disclosures since ASX Listing.

Payments to related parties in March 2021 quarter

Payments to related parties and their associates during the quarter was \$326,000 which consists of salaries, FY2020 year-end performance bonuses and deferred compensation for the CEO, Keith Cohn, and one non-executive director, Andrew Clark, for providing additional services beyond the standard scope of his non-executive role.

Authorised by the Board of Directors.

Justyn Stedwell

Company Secretary

Candy Club Holdings Limited

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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) division in the United States of America. Broadly, confectionery encompasses sugar confectionery, chocolates and gum.

Founded in 2015 by 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.

All dollar figures throughout this document are in US Dollars unless otherwise specified.

In 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 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	3,339	3,339
1.2 Payments for		
(a) research and development	(11)	(11)
(b) product manufacturing and operating costs	(2,870)	(2,870)
(c) advertising and marketing	(556)	(556)
(d) leased assets	(21)	(21)
(e) staff costs	(864)	(864)
(f) administration and corporate costs	(459)	(459)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(74)	(74)
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	(1,516)	(1,516)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(71)	(71)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (3 months) \$US'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	(71)	(71)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	1,140	1,140
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	(13)	(13)
3.5 Proceeds from borrowings	278	278
3.6 Repayment of borrowings	(288)	(288)
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	1,117	1,117

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	2,017	2,017
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,516)	(1,516)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(71)	(71)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (3 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	1,117	1,117
4.5	Effect of movement in exchange rates on cash held	(7)	(7)
4.6	Cash and cash equivalents at end of period	1,540	1,540

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 \$US'000	Previous quarter \$US'000
5.1	Bank balances	1,540	2,017
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)	1,540	2,017

6.	Payments to related parties of the entity and their associates	Current quarter \$US'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	326
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>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.</i>		
<i>6.1 Includes payment of wages and salaries, directors' fees and consulting fees</i>		

7. Financing facilities	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	2,000	1,569
7.2		
7.3		
7.4	Total financing facilities	
7.5	Unused financing facilities available at quarter end	
		431
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.	
	<p><u>Crossroads Financial LLC (existing)</u> – \$2.0m credit facility secured by the value of our inventory that had \$431,000 of availability as of 31 March 2021. Candy Club has since paid off the entire balance of loan on 9 April 2021 with the proceeds from a new debt facility for a total of \$1,658,771, including \$1,569,000 to principal, \$80,000 early termination fees, \$8,490 interest, and \$1,281 in closing fees. Details of this more favourable debt facility are discussed in footnote 8.6.2.</p> <p><u>Versant Funding (existing)</u> – An Accounts Receivable facility whereby the company sells its accounts receivables to Versant in exchange for a fee to help with cash flow timing. This line has no credit limit and is based on how much of the company's receivables are purchased in a given period. Candy Club has since terminated this facility as of April 7, 2021 and may replace it with a more favourable one at a later date.</p>	

8. Estimated cash available for future operating activities	\$US'000
8.1	(1,516)
8.2	1,540
8.3	431
8.4	1,971
8.5	1.30
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:
8.6.1	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: Yes. Even though Candy Club is continuing to grow, it is focused on long term growth initiatives and therefore will continue to reinvest in the business to scale faster versus an emphasis on near-term profitability.

8.6.2 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: The company has secured a more favourable debt facility for US\$7.5m in April 2021 over two tranches, the first a \$5 million tranche available at close, and the second at August 31st or September 30th based on hitting key milestones that the Company believes it is on track to hit. Additionally, the Company has completed an Equity Capital raise for A\$10.7m. With the completion of both the Debt and Equity Capital raise, the Company has secured a total of US\$15,6m and believes it will have the working capital required to considerably scale the business.

8.6.3 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

Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

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: 20 April 2021

Authorised by: Justyn Stedwell - Company Secretary on behalf of 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.