

Candy Club notches record sales as B2B distribution expands

- **FY2021 B2B revenue increased 123% to \$14.7 million, from \$6.6 million YoY**
- **FY2021 overall revenue estimated at ~\$17m, an increase of 86% YoY**
- **4Q 2021 B2B revenue increased 91% YoY to \$5.36m, from \$2.8m 4Q 2020**
- **4Q Non operating cash flow (NOCF) improved 59% QoQ to -\$1.78m with further improvement expected in Q1 2022**
- **January 2022 B2B revenue projected to be up 53% to \$1.5m over January 2021**

Quarterly Activities Report & Appendix 4C for the quarter ended 31 December 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 December 2021 ("**4Q FY2021**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

The Company achieved total gross revenue of \$5.84 million in 4Q FY2021, representing an increase of 78% year-on-year ("**YoY**"). This was driven by its business-to-business ("**B2B**") segment achieving \$5.36 million in gross revenue during 4Q FY2021 (91% YoY). On a quarter-on-quarter ("**QoQ**") basis, the B2B segment grew by 48%.

For FY2021 the B2B revenue segment grew by 123% to \$14.7 million from \$6.6 million in FY 2020.

Operational Highlights:

The Candy Club B2B business has two robust segments;

- i. 'Direct sales' channel - which services large regional and national retail accounts directly through its internal sales force and brokers
- ii. e-Commerce business - where the Company sells its products primarily to small, independent retailers on third-party B2B platforms.

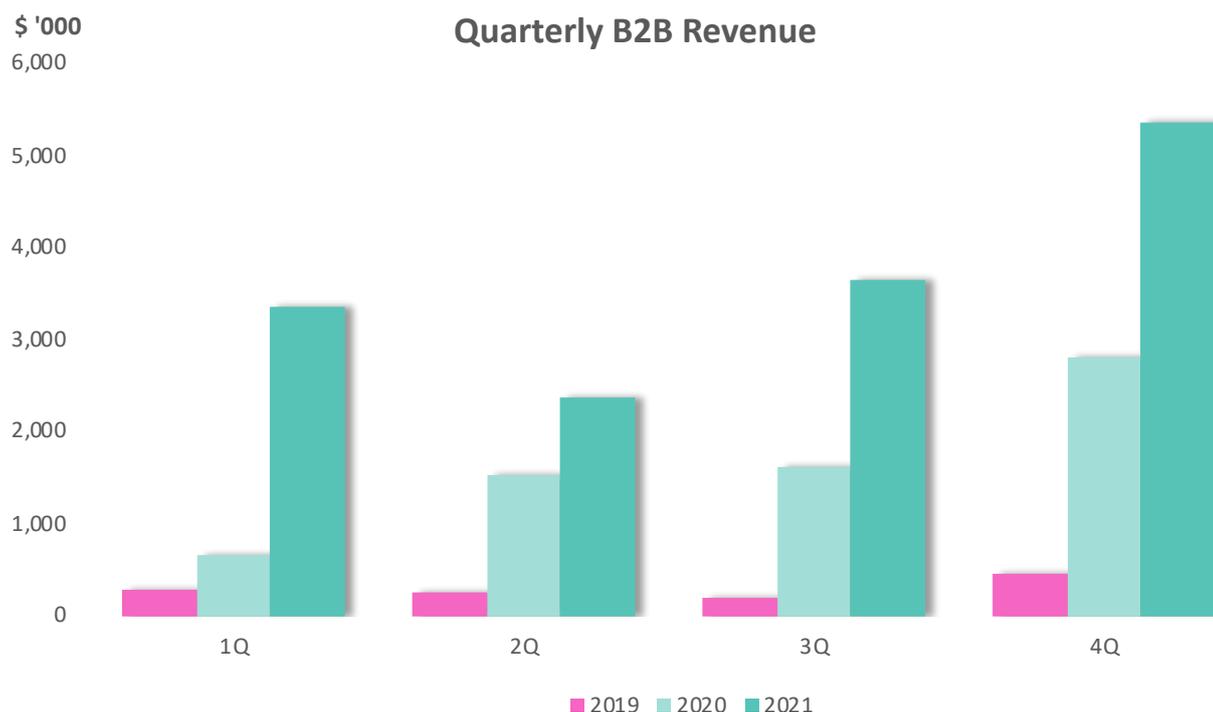
Each of these segments continues to grow in both customer numbers and in total sales and enables the Company to access a large and diverse customer base.

Key highlights for 4Q 2021 include:

- Addition of >2000 active new customers and >4000 active doors
- The number of large regional and national retail accounts carrying Candy Club products on a permanent ranging basis has increased to 35 from 12
- Strong sell-thru at all major customers, including top customers Kohl's and Target
- 100% reorder rate by the Company's top 25 customers
- In late Q4, Candy Club began selling its products internationally through the Faire.com platform in the UK, EU and Canada, with this segment of the business already driving ~\$500,000 on an annualized basis
- Candy Club achieving the #1 selling item on the entire Faire.com platform in 2021, a significant accomplishment given the number of products and volume that this \$12 billion market-cap company drives
- Significant enhancements to its inventory management processes that drove a material improvement in its NOCF of 59% QoQ with additional improvements expected in Q1 2022
- Cost cutting measures and increased economies of scale in its supply chain
- A price increase that was successfully implemented on 1st January 2022, strengthening projected January revenue and margins

- Improved gross margins that will be further improved throughout 2022 as supply chain, sell price increase and additional initiatives are fully implemented, which should allow the Company to achieve its stated gross margin target of 46% for FY 2022 vs. 41% for FY 2021
- EBITDA loss improved by 35% QoQ to (\$899k) inclusive of investment activity in several new initiatives that were halted in mid-November. On a pro forma basis without these investment activities, EBITDA loss would have improved to ~(\$550k) for 4Q 2021 or an improvement of 60% QoQ

“The Company had an outstanding 4Q in every regard, achieving increased distribution into a growing list of prominent retailers who as a result of strong retail sell-thru are carrying us on a permanent basis,” CEO Keith Cohn said. “High reorder rates, improved operational efficiencies and a clear path for margin expansion beginning in January 2022, are all being achieved in the face of the COVID pandemic. We look forward to carrying this momentum into 2022 as we drive towards additional scale and improved financial performance in the coming quarters.”



Future outlook:

The Company forecasts a strong start to the year with January 2022 B2B revenue anticipated to be \$1.5m vs. \$980k in January 2021, a 53% increase on a YoY basis. Gross margins are forecast to improve to 46% in January due to cost improvements in its supply chain, a price increase that took effect January 1st and a favorable product sales mix that includes higher priced Valentine’s Day candies. EBITDA and NOCF loss for Q1 2022 are also anticipated to improve on a QoQ basis.

Key highlights expected for Q1 2022 include:

- Significant product distribution expansion within existing accounts and through winning new accounts
- Further sales growth of its international business through the Faire.com platform
- Revenue growth, margin expansion and narrowing EBITDA and NOCF loss on a YoY basis
- Further product development with existing and new suppliers including an expanded line of exclusive confectionery offerings
- Anticipated hiring of US investment bankers to explore strategic options for the business in the US

Financial Highlights

	3Q FY2021 (actual)	4Q FY2021 (estimate)	QoQ Change		4Q FY2020 (actual)	4Q FY2021 (estimate)	YoY Change
Total gross revenue	\$4.12m	\$5.84m	42%		\$3.29m	\$5.84m	78%
B2B revenue	\$3.63m	\$5.36m	48%		\$2.80m	\$5.36m	91%
B2C revenue	\$0.52m	\$0.48m	-8%		\$0.49m	\$0.48m	-2%
Gross margins	41%	38%	-3 pts		41%	38%	-3 pts
EBITDA*	-\$1.38m	-\$0.89m	36%		-\$0.72m	-\$0.89m	-24%
NOCF	-\$4.39m	-\$1.78m	59%		-\$1.19m	-\$1.78m	-50%

Income Statement

Candy Club achieved \$5.84 million in total revenue in 4Q FY2021, led by a record \$5.36 million in B2B sales in the quarter, an increase of 91% YoY.

The Company's gross margins dropped from 41% to 38% in the quarter. The drop in gross margin was driven exclusively by the Target test order which shipped in October. Excluding this order the Company's gross margins would have been flat vs. Q3 2021 at 41%. Candy Club expects gross margins to increase in Q1 2022 after:

- (a) cost reductions from efficiencies gained by implementing new production equipment;
- (b) the price increase implemented on 1 January 2022; and
- (c) cost reductions negotiated with key vendors

Overall, the Company reiterates its prior guidance that it expects to achieve gross margins of 46% or better for FY2022.

EBITDA loss improved by 36% in the quarter to (\$899,000), inclusive of several investment activities that were paused indefinitely mid-quarter as the Company pivoted to focus on getting to profitability as soon as practical while still maintaining substantial YoY growth. Without these investment activities, pro forma EBITDA loss for the quarter would have been ~(\$550,000) or a 60% improvement on a QoQ basis.

NOCF loss decreased by 59% in the quarter as the Company increased revenue and cash receipts while making improvements in how it manages its inventory levels. Candy Club believes that it will be able to make continued improvements in its key inventory-to-sales ratio which in turn will continue to drive its NOCF down further in 2022.

Balance Sheet

At 31 December 31 2021 Total Current Assets were \$15.5m with Cash at \$5.2m, Accounts Receivable at \$1.8m, Inventory at \$7.1m and all other \$1.4m.

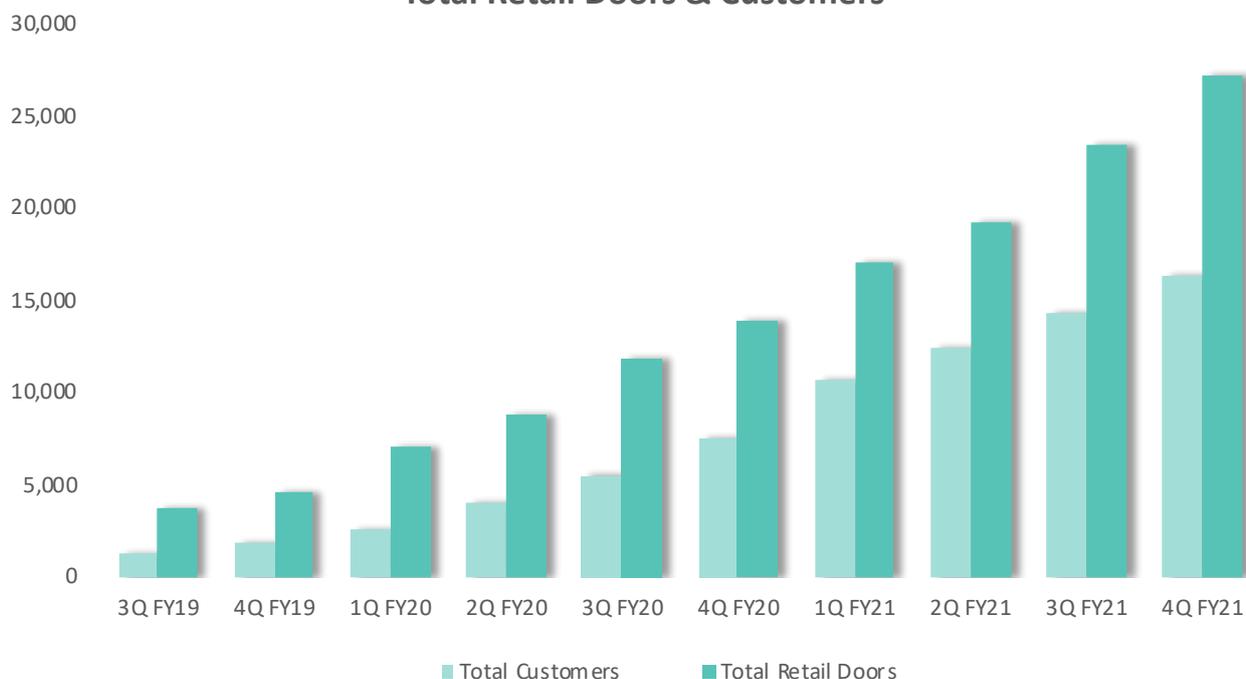
Total Current Liabilities at 31 December 2021 were \$4.3m with \$1.7m in Accounts Payable and \$2.6m of Other Current Liabilities.

Operational Performance

Candy Club continued to meet or exceed all operating KPI expectations in 4Q FY2021.

The Company's total number of retail doors continued to grow to more than 27,000 and the number of B2B customers exceeded 16,000 as of 4Q FY2021. Quarterly re-order rates from its top 25 customers once again achieved an impressive 100% off the back of strong consumer demand for its products at retail.

Total Retail Doors & Customers



Candy Club's distribution growth was achieved in both its customer segments. There was an increase in large regional and national retailers selling the Company's products and the Company continued to acquire new customers via the 3rd party e-Commerce platforms.

"This two prong approach allows Candy Club to cover the vast specialty market in a very efficient manner. Our internal sales staff is focused on acquiring large, high volume targets while our e-Commerce platform business targets a high volume of smaller accounts in a highly scalable fashion without the need to add headcount to win that business," Cohn remarked. "We believe we can continue to scale the business significantly with minimal increases in our operating expenses."

The Company's B2C, which consists of both subscriptions and a traditional e-commerce business, has turned profitable on a standalone basis given recent reductions in its customer acquisition expense, and achieved 4Q FY2021 revenue of \$0.48 million.

Additional information

Payments to related parties and their associates during the quarter were \$181k which consists of salaries 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.

The Company expended cash on operating activities during the quarter as per below:

Use of funds	\$US'000
Research and development	68
Product manufacturing and operating costs	4784
Advertising and marketing	761
Leased assets	25
Staff costs	783
Administration and corporate costs	693
Interest and finance costs paid	149

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 omni-channel strategy with a vision to become the world's leading specialty market confectionery company.

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

Forward-looking statements

This ASX release contains certain references to forecasts, estimates, assumptions, projections, and other forward-looking statements and statements regarding the intent, belief or current expectations of Candy Club. The words "likely", "expect", "aim", "should", "could", "may", "prospect", "anticipate", "predict", "believe", "plan", "forecast" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements, opinions and estimates provided in this ASX release are based on current expectations, estimates and projections about Candy Club's business and its financial performance and the industry in which it operates. They may also be based on assumptions and contingencies which are subject to change without notice and/or risk factors associated with an investment in Candy Club. These forward-looking statements involve known and unknown risks, uncertainties and assumptions and other important factors, which are, or may be, beyond the control of Candy Club. These forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from the results, performance or achievements expressed or implied in this ASX release. Events and actual circumstances frequently do not occur as forecast and these differences may be material. Accordingly, investors are cautioned not to place undue reliance on any forward-looking statements contained in this ASX release, which speak only as of the date of this ASX release.

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 DECEMBER 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	4,924	13,914
1.2 Payments for		
(a) research and development	(26)	(115)
(b) product manufacturing and operating costs	(4,044)	(15,597)
(c) advertising and marketing	(736)	(2,633)
(d) leased assets	(24)	(102)
(e) staff costs	(820)	(3,091)
(f) administration and corporate costs	(832)	(2,584)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(227)	(621)
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	(1,785)	(10,289)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		(154)
(d) investments		
(e) intellectual property		
(f) other non-current assets		
2.2 Proceeds from disposal of:		
(g) entities		
(h) businesses		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
	(i) property, plant and equipment		
	(j) investments		
	(k) intellectual property		
	(l) 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		(154)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		9,042
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		(780)
3.5	Proceeds from borrowings	2,500	7,778
3.6	Repayment of borrowings		(1,857)
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	2,500	14,183

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,479	2,017
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,785)	(10,829)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		(154)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,500	14,183
4.5	Effect of movement in exchange rates on cash held	18	(5)
4.6	Cash and cash equivalents at end of period	5,212	4,478

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	5,212	4,479
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)	5,212	4,479

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	181
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 <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>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	7,500	7,500
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities		
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.		
<p>Venture Lending & Leasing IX Inc. - Candy Club executed a debt facility in April 2021 for up to US \$7.5m of which all US\$7.5 million has been drawn down, with the most recent draw of \$2.5m on November 12, 2021. Under the debt facility, there will be Interest only (12%) payments for twelve (12) months followed by thirty (30) months of principal and interest repayments.</p> <p>The debt facility will rank as first priority lien and be secured by all of Candy Club's assets.</p>		

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,785)
8.2 Cash and cash equivalents at quarter end (item 4.6)	5,212
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	5,212
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.91
<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?	
<div style="border: 1px solid black; padding: 5px;"> <p>Answer: Yes. The Company expects to have the cash it requires to meet its operating requirements.</p> </div>	
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?	
<div style="border: 1px solid black; padding: 5px;"> <p>Answer: Candy Club believes it currently has the working capital needed to scale the business</p> </div>	
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?	
<div style="border: 1px solid black; padding: 5px;"> <p>Answer: N/A</p> </div>	
<i>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.</i>	

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: ...27/01/2022.....

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.