

Candy Club's 2Q results driven by success in direct selling to national accounts, and US-led investment bank process well underway with multiple parties undertaking due diligence

Quarterly Activities Report & Appendix 4C for the quarter ended 30 June 2022

- **2Q 2022 B2B revenue up 7% YoY as direct selling to national accounts grew 2.5x vs. 2Q FY 2021**
- **Gross margins increased during the quarter to 44% from 43% in 2Q 2021**
- **NOCF loss improved 46% to -\$1.68m compared to -\$3.14m in 2Q 2021 during its slowest quarter of the year**
- **Significant growth in 1H 2022 with existing major national accounts and successful test programs with new major accounts has the company well positioned for continued strong YoY growth in Candy Club's direct selling segment**

Melbourne, Australia – Candy Club Holdings Limited (ASX: CLB) ("**Candy Club**" or "**the Company**") is pleased to announce its results for the three months ending 30 June 2022 ("**2Q FY2022**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

B2B Segment

Candy Club achieved total revenue of \$7.1m in 1H 2022. In 2Q 2022, the Company continued its focus on growth with the business to business ("**B2B**") segment. The segment's revenue grew 7% YoY to \$2.51 million on the back of a 147% increase in its direct selling business, which focuses on national retail accounts.

Candy Club continued to see existing national retail accounts expand significantly on a YoY basis and had several new national retail accounts launch successful tests, both of which will result in further expansion of this key segment in 2H 2022.

Candy Club's everyday products ("Daily Delights"), seasonal holiday lines (Halloween, Christmas, etc.) and collections are all receiving increased distribution in the Company's large national accounts.

The wholesale platform segment of the B2B business was off by 14.5% in 1H 2022 as Tundra, Hubba and Abound have seen their businesses contract significantly or disappear altogether as a result of the 'live sellers' and pure play e-commerce based businesses that sprung up during the COVID pandemic lockdowns giving way to more traditional retail shopping patterns once again.

The results for the 2Q were exactly in accordance with the plan presented to US investors in May 2022.

Candy Club's Faire.com business remains strong, however, feedback from this segment's boutique customers are that they would like to buy products from the Company that aren't so readily available in national retail chains. As such, Candy Club has developed several products designed to better meet the needs of these retailers, including platform exclusives and a higher-end packaging and candy execution that will only be sold in boutiques. If successful, these new higher priced, high margin items will add significantly to the Company's bottom line while igniting this segment's growth once again.

In addition to the new items developed specifically for the platform segment mentioned above, Candy Club will launch several new product innovations available to all customers in 2H 2022, including a broad array of proprietary candy formulations and its first entertainment-based licensed products that are expected to drive future growth and further entrench the Company with its retail partners. The Company's private label program continues to expand as it shipped its first Disney program in July.

US-based Investment Banking Process

The US-based investment banking process was launched in early May. Feedback from quality investors has been supportive of the Company's business model, product line and growth trajectory. Investor confidence in reaching profitability over the next several quarters will be critical to Candy Club's ability to raise money on favorable terms. To that end, the Company's board is considering additional cost saving measures that could be initiated over the next several weeks designed to bolster Candy Club's profitability, cash flow and likelihood for a successful capital raise.

While turmoil in the capital markets has caused some delays in the process, there is interest in investment in Candy Club and the Company is in discussions with approximately 12 different counter parties, and the present expectation is to receive one or more term sheets over the next several weeks. It is still too early to tell how much equity investors are willing to commit to the business and on what terms.

The Company has also received commitments for additional debt to be made available alongside new equity should it be required for future growth initiatives.

Additional key highlights for 2Q FY2022 include:

- Candy Club gained an additional 1,300 new customers and 1,800 new doors in 2Q FY2022, bringing the total customers and total doors to more than 20,000 and 32,000, respectively.
- 92% reorder rate by the Company's top-25 customers.
- Candy Club remains the #1 top selling confectionery brand on the entire Faire.com platform.
- Under the business-to-business ("**B2B**") segment, the Company continues to invest and achieve profitability on a customer's second shipment.

Operational Performance

The Company's total number of retail doors continued to grow to more than 32,000 and the number of B2B customers exceeded 20,000 as of 2Q FY2022. Quarterly re-order rates from its top-25 customers once again achieved an impressive 92% on the back of strong demand.



The Company's B2C segment, which consists of both subscriptions and a traditional e-commerce business, remains profitable on a standalone basis given the recent reductions in its customer acquisition expense. Now that this segment is once again viable, Candy Club intends to execute a series of strategic initiatives in late FY2022 to profitably scale this revenue stream further.

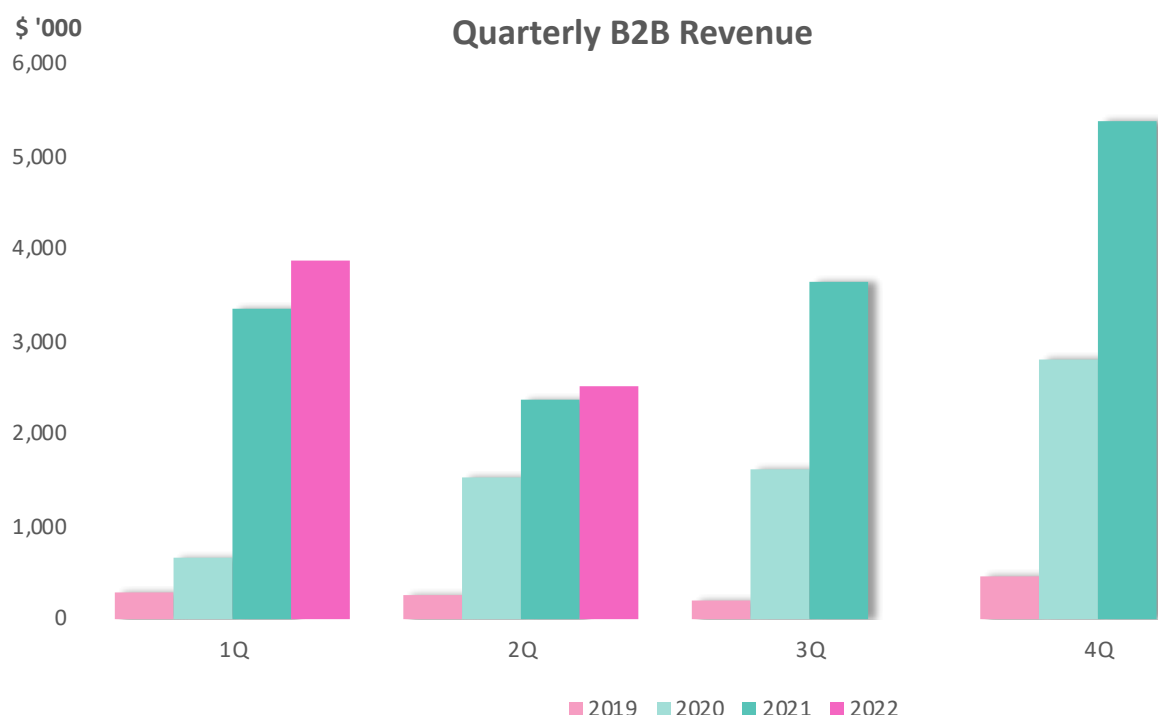
Financial Performance

	1Q FY2022 (actual)	2Q FY2022 (estimate)	QoQ Change	2Q FY2021 (actual)	2Q FY2022 (estimate)	YoY Change
Total gross revenue	\$4.33m	\$2.78m	-36%	\$3.04m	\$2.78m	-9%
B2B revenue	\$3.88m	\$2.51m	-35%	\$2.37m	\$2.51m	6%
B2C revenue	\$0.45m	\$0.27m	-40%	\$0.67m	\$0.27m	-60%
Gross margins	45%	44%	-1 ppts	43%	44%	+1 ppts
EBITDA*	-\$0.88m	-\$1.32m	-50%	-\$1.33m	-\$1.32m	1%
NOCF	-\$0.40m	-\$1.68m	-320%	-\$3.14m	-\$1.68m	46%

*EBITDA is on an operating basis of the US entity before public expenses.

Candy Club achieved \$2.78 million in total revenue in 2Q FY2022. This is mainly driven by the 147% growth in the B2B direct selling segment which was offset by the 26% decline in the B2B platform segment due to an overall contraction in the number of platforms servicing small retailers. Faire.com remains the dominant platform marketplace and is well-funded, with no further retractions expected from them.

It should be noted that the Company's business is highly seasonal, driven by both the number of gift-giving holidays that centre around candy in a given period, as well as retail foot traffic. In 2021, Candy Club generated more than 60% of its B2B revenue in second half of the year. As the Company's mix of retail customers continues to shift to more large, national accounts who drive a significant portion of their business in Q4, management believes that trend will only continue to accelerate.



Gross margins remained strong during the quarter at 44% as compared to 43% in 2Q 2021.

“Candy Club had a solid second quarter for 2022 as the Company looks to continue its strong year on year growth in our direct selling segment” founder and CEO Keith Cohn said. “The Company increased gross margins and direct selling to national accounts grew 2.5 times when compared to this quarter last year. The successful marketing and sales of new and premium candies to both e-commerce and bricks and mortar customers including various seasonal collections is expected to drive further growth in the future.”

As of 30 June 2022, Candy Club had total current assets of \$11 million, including \$2.3 million in cash, \$1 million in accounts receivable, \$6.3 million in inventory and \$1.4 million in other current assets. The Company had total current liabilities of \$4.4 million, including \$1.4 million in accounts payable and \$3 million in other current liabilities.

Additional information

Payments to related parties and their associates during the quarter were \$0.14 million which consists of salaries paid 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.

Nova Taylor

Company Secretary

Candy Club Holdings Limited

For more information, please contact:

Candy Club Holdings Limited

Keith Cohn

Managing Director

kcohn@candyclub.com

Nova Taylor

Company Secretary

nova.taylor@atomicgroup.com.au

The Civic Partnership

Tim Fogarty

Account Manager

tim.fogarty@civicpartners.com.au

+ 61 400 179 075

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")

30 JUNE 2022

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (6 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,515	6,868
1.2 Payments for		
(a) research and development	(25)	(41)
(b) product manufacturing and operating costs	(1,984)	(4,500)
(c) advertising and marketing	(417)	(894)
(d) leased assets	(24)	(48)
(e) staff costs	(1,038)	(2,483)
(f) administration and corporate costs	(482)	(935)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(221)	(446)
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	(1,676)	(2,479)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(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 \$US'000	Year to date (6 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	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)		
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	(2)	(2)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(287)	(287)
3.7	Transaction costs related to loans and borrowings	(195)	(195)
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	(484)	(484)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	4,434	5,212
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,676)	(2,479)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(484)	(484)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (6 months) \$US'000
4.5	Effect of movement in exchange rates on cash held	(35)	10)
4.6	Cash and cash equivalents at end of period	2,239	2,239

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	2,239	4,434
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)	2,239	4,434

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	148
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<p><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></p> <p><i>6.1 Includes payment of wages and salaries, directors fees and consulting fees.</i></p>		

7. Financing facilities <i>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.</i>	Total facility amount at quarter end \$US'000	Amount drawn at quarter end \$US'000
7.1 Loan facilities	7,213	7,213
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. 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)	(1,676)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,239
8.3 Unused finance facilities available at quarter end (item 7.5)	-
8.4 Total available funding (item 8.2 + item 8.3)	4,434
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.36
<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?	
<p>Answer: Yes. The Company expects to have the cash it requires to meet its operating requirements.</p>	

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: Candy Club has hired a US-based Investment Bank to assist the Company in potentially securing additional capital to scale the business further. The Company has also received two commitments for additional debt financing so long as a minimal amount of new equity is raised. Last, the Company is prepared to make expense cuts as required to ensure that the company has the working capital required to fund operations.

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, based on a combination of 1) a scaling business in seasonally strong 2H of the year 2) additional equity and debt financing it expects to secure and 3) expense cuts, as required

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: 29 July 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.