



29 April 2019

## ***Quarterly Activities Report & Appendix 4C***

*Quarter ended 31 March 2019*

Melbourne, Australia, 29 April 2019 – Candy Club Holdings Limited (ASX: CLB, “**Candy Club**” or “**Company**”) a leading premium confectionary business, is pleased to provide its quarterly activity report and Appendix 4C.

### **Highlights**

- The Company was admitted to the ASX on 19 February 2019 providing the Company with \$4.37mm in net cash proceeds from the IPO
- During Q1 2019, the Company achieved operating revenue of \$2.1mm with a 51% gross profit margin of \$1.08mm and cash receipts of \$1.86mm
- The Company’s wholesale division (B2B) added 400 new retail partners and sees revenue climb by 25% over the prior quarter
- The Company has made significant investments in inventory, driven by strong B2B demand from 750+ retail partners representing over 2,000 locations, with \$2.9mm in inventory at 31 March 2019
- Prominent retail chains currently carrying the Company’s product line include Hallmark Stores, Francesca’s, Riley Rose (division of Forever 21), Lick, Saks Fifth Avenue and Ace Hardware, with substantial opportunity to expand with each
- Cash at bank at 31 March 2019 was \$1.1mm with availability of up to an additional \$1.4mm through a credit facility secured in April 2019
- Operation of the direct-to-consumer subscription (B2C) business is running efficiently, but with customer acquisition expenses reduced by 40% from the prior quarter, mostly due to a new media buying strategy and partnership programs with partners including mobile carrier Verizon and State Farm Insurance

### **Initial Public Offering**

On 19 February 2019 the Company was admitted to the ASX and secured \$4.37mm in net proceeds from the IPO, providing the Company with the working capital required to execute its 2019 operating plan. A key use of the IPO proceeds during Q1 2019 was for significant inventory purchases to meet current and forecasted demand. While total product and manufacturing costs

in Q1 2019 were \$1.75mm, approximately \$1mm were for cost of goods sold (COGS) in Q1 2019 with \$450k in COGS representing inventory purchases to meet future demand.

### **Operating results and cash outflows**

Revenue for Q1 2019 was \$2.1mm with cash receipts totaling \$1.86mm. The Company achieved a 51% gross profit margin equaling \$1.08mm in gross profit before distribution and selling expenses resulting in a net contribution margin after all distribution and selling expenses of \$586k.

While total cash outflows for all staff (\$987k), R&D (\$30k), leases (\$65k) and administration and corporate expenses (\$1.7mm) equaled \$2.8mm during Q1 2019, on an operating basis actual expenses were only \$1.3mm when certain one-off, non-recurring expenditures like severance or payments of expenses incurred in prior periods were excluded. The Company expects further declines in total operating costs as evidenced by the fact that the total cash outflows for these same expense items only totaled \$394k during March 2019.

For Q1 2019, EBITDA loss excluding certain one-off, non-recurring charges was \$1.2mm with further decreases expected as revenue grows, expenses decline and margins expand. For example EBITDA loss is forecast to be approximately \$250k during the month of April 2019.

While an additional \$1.2mm was used in Q1 2019 to repay loans (\$1.124mm) and interest (\$84k), it should be noted that the Company had no non-trade debt on its Balance Sheet at 31 March 2019.

### **Wholesale Division (B2B)**

Candy Club's wholesale division (B2B) achieved \$380k in revenue during Q1 2019, representing a 25% increase over the prior quarter. The Company added nearly 400 new retail partners in this period, bringing its total retail customers to over 750 acquired in just over two quarters of operations. Candy Club's products are currently carried in just over 2,000 retail locations across the USA.

As a result of strong product sell through, more than 50% of revenue from the B2B division was generated by customer reorder activity. More significantly, there were several prominent national retailers who tested the Company's product lines in a limited number of stores, that have now expanded the number of stores offering the product due to strong sell through and consumer demand. Most notable among these retailers was the Hallmark Stores, who initially carried the product in 12 locations and has expanded to nearly 400 outlets out of their total of 2,000 stores throughout the United States. Other multi-location retail operators currently carrying Candy Club's products include Franchesca's (52 stores), Lick (12 stores), and Box Lunch (114 stores). Retail partners currently in test markets, with the opportunity to expand nationally, include Riley Rose, Saks Fifth Avenue, Ace Hardware and Bloomingdales.

To date, 90% of all multi-location chains which have carried Candy Club's product line have re-ordered and expanded the relationship with the Company due to strong retail sales.

It should also be noted that the Company has historically experienced significant seasonality in its business with 70% of all sales occurring in the second half of the calendar year.

### **Direct-to-Consumer Division (B2C)**

The recurring monthly revenue (RMR) for the B2C division during Q1 2019 averaged \$580k per month, which equates to a \$7mm annualized run-rate. While the RMR has decreased slightly from the prior period, this is in-line with the Company's operating plan and was achieved with a dramatically reduced customer acquisition expense of \$493k (compared to \$842k during the prior period) as the Company realigns its focus to move towards profitability as soon as possible.

This was achieved by the Company's new media buying strategy and by utilizing key marketing partnerships with household brand names including mobile carrier Verizon and State Farm Insurance. These resulted in a 38% reduction in average customer acquisition cost (CPA) to \$31 per new subscriber compared to the prior quarter.

Gross margins in the B2C division have continued to increase to 58.8% before shipping and selling expenses and a net contribution margin of 43.4% after shipping and selling expenses but before the impact of new member incentives.

The Company also expects to expand its B2C division as it plans to launch a non-subscription based e-commerce offering in Q2 2019. This has the potential to be a highly cost-effective way to re-engage and monetize the roughly 250,000 customers that have purchased a subscription from Candy Club with no incremental marketing expense.

### **Subsequent Activities**

There are several noteworthy key developments in the Company's business activities for Q2 2019:

- In mid-April 2019 Candy Club secured a revolving credit facility of \$1.4mm which will be utilized to help the Company meet its future growth requirements.
- The B2B division has renegotiated its shipping rates with its courier service provider for a 40% reduction on all shipments while maintaining the same level of service. This is expected to result in a 10% increase in gross margins for the B2B division beginning 1 April 2019.
- In mid-April 2019, the Company entered into an agreement with its fulfilment services provider to secure \$240k worth of automation equipment for the assembly of both its B2B and B2C product lines. As part of this investment, the Company has been able to lock in price concessions that are expected to translate into an increased gross profit margin. It is expected that this equipment will come online during early Q3 2019.

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**About Candy Club:**

Candy Club is a leading specialty market confectionary company which operates a wholesale business and a direct-to-consumer subscription business. Founded in 2015 by serial entrepreneur Keith Cohn, the Company is executing on an omni-channel strategy with a vision to become the world's leading specialty market candy company. The Company is headquartered in Los Angeles, CA.

## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

CANDY CLUB HOLDINGS LIMITED

**ACN**

629 598 778

**Quarter ended ("current quarter")**

31 MARCH 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	1,858	1,858
1.2 Payments for		
(a) research and development	(30)	(30)
(b) product manufacturing and operating costs	(1,745)	(1,745)
(c) advertising and marketing	(514)	(514)
(d) leased assets	(65)	(65)
(e) staff costs	(987)	(987)
(f) administration and corporate costs	(1,693)	(1,693)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(84)	(84)
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other (provide details if material)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(3,260)</b>	<b>(3,260)</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) 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)		
<b>2.6 Net cash from / (used in) investing activities</b>	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	5,024	5,024
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options	(88)	(88)
3.5 Proceeds from borrowings	562	562
3.6 Repayment of borrowings	(1,124)	(1,124)
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	<b>4,374</b>	<b>4,374</b>

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	12	12
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(3,260)	(3,260)
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)	4,374	4,374
4.5 Effect of movement in exchange rates on cash held	(11)	(11)
<b>4.6 Cash and cash equivalents at end of quarter</b>	<b>1,115</b>	<b>1,115</b>

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	1,115	12
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,115</b>	<b>12</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3

**Current quarter  
\$A'000**

97

- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Relates to salaries and other employment related costs

<b>7.</b>	<b>Payments to related entities of the entity and their associates</b>	<b>Current quarter \$A'000</b>
7.1	Aggregate amount of payments to these parties included in item 1.2	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

<b>8.</b>	<b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
8.1	Loan facilities		
8.2	Credit standby arrangements		
8.3	Other (please specify)		
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

<b>9.</b>	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Research and development	42
9.2	Product manufacturing and operating costs	1,620
9.3	Advertising and marketing	422
9.4	Leased assets	65
9.5	Staff costs	761
9.6	Administration and corporate costs	252
9.7	Other (provide details if material)	70
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>3,232</b>

<b>10.</b>	<b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1	Name of entity		
10.2	Place of incorporation or registration		
10.3	Consideration for acquisition or disposal		
10.4	Total net assets		
10.5	Nature of business		

There have been no acquisitions or disposals during the current quarter.

**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.



Sign here:

(Company secretary)

Date: 29/4/19

Print name: Justyn Stedwell

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.