



27 January 2021

Candy Club achieves record 4Q 2020 as B2B revenue up 509% YoY

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

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 2020 ("**4Q FY2020**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

Total gross revenue \$3.29 million was achieved in 4Q FY2020, representing an increase of 205% YoY. This was driven by its business-to-business ("**B2B**") segment which posted \$2.8 million gross revenue during the quarter. This is an impressive 71% increase on a quarter-on-quarter ("**QoQ**"), or an astounding 509% growth year-on-year ("**YoY**").

Candy Club expects this growth trajectory to continue in FY2021 as January is expected to generate \$1.4 million in total gross revenue with \$1.2 million of that coming from the B2B segment, representing a 515% increase as compared to January 2020's B2B gross revenue.

The Company's strong performance comes amid the extremely challenging operating environment in the US, which continues to be impacted by the COVID-19 pandemic.

Financial Highlights

	4Q FY2019 <i>(actual)</i>	3Q FY2020 <i>(actual)</i>	4Q FY2020 <i>(actual)</i>	QoQ Change	YoY Change	Jan FY2021 <i>(estimate)</i>
Total gross revenue	\$1.08m	\$2.18m	\$3.29m	51%	205%	\$1.40m
B2B revenue	\$0.46m	\$1.64m	\$2.80m	71%	504%	\$1.20m
B2C revenue	\$0.62m	\$0.54m	\$0.49m	-9%	-21%	\$0.20m
Gross margins	42%	43%	41%	-2 ppts	-1ppts	43.0%
EBITDA*	-\$0.88m	-\$0.61m	-\$0.72m	-18%	18%	-\$0.15m
NOCF	-\$1.45m	-\$01.90m	-\$1.19m	37%	18%	N/A

**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.

Key highlights include:

- Total gross revenue for the quarter was up significantly QoQ at \$3.29 million due to strong demand for its B2B products in the seasonally strong 4Q period. On a YoY basis, the total gross revenue grew 205%.
- The B2B segment recorded revenue of \$2.8 million in 4Q FY2020, representing a QoQ and YoY increase of 71% and 509%, respectively.
- The Company's total number of retail doors as at 4Q FY2020 was close to 14,000, while the number of B2B customers grew to over 7,500. Re-order rates for the Company's top 25 customers topped 96% for the quarter.

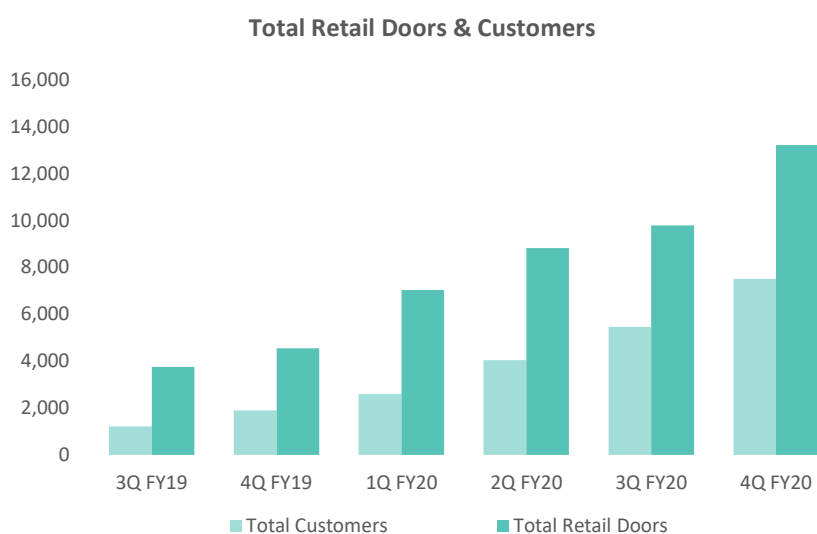
- Net operating cash flow (“**NOCF**”) was $-\$1.19$ million in 4Q FY2020, a $\$707,000$ improvement, or a 37% increase QoQ due to improved operating performance.
- In January 2021, B2B revenue is expected to exceed $\$1.2$ million, marking a 515% increase over the $\$196,000$ achieved in January 2020.
- Candy Club made two key hires to bolster its management team, Tracey Moses, SVP Marketing and Product Development, and Ivana Placko, VP Technology, to assist in executing the Company’s 2021 strategic roadmap.
- Candy Club had $\$3.1$ million in cash as at 31 December 2020, inclusive of the Director’s investment expected in late January pending shareholder approval. Candy Club also had $\$420,000$ in borrowing base available under its current inventory financing agreement, with approval to increase the line another $\$500,000$ if the Company requires. The Company is also selling 100% of its account receivables to its account receivables lender, further adding to its available working capital needs.

Operational Performance

Despite the challenging operating environment in the US, Candy Club’s B2B segment remained strong in 4Q FY2020. The segment achieved record revenue of $\$2.8$ million and had its record month for demand in October of $\$1.5$ million.

On a YoY basis, Candy Club’s 4Q FY2020 B2B revenue grew 509%, or 6.31x more than 4Q FY2019.

All of Candy Club’s key metrics were achieved in 4Q FY2020. The Company’s total number of retail doors were close to the 14,000 mark, while the number of B2B customers grew to over 7,500. Re-order rates, the rate a B2B customer repeats an order, for the Company’s top 25 customers hit a record 96% during the quarter.



While the Company continues to win many prominent new national retail accounts and re-engage with existing customers, including Nordstrom Rack, Kohl’s, Bloomingdales, Macy’s, American Eagle, Fresh Markets, Caribou Coffee and WinCo, the COVID-19 pandemic and resulting “shelter-in-place” orders in the US has decreased demand from traditional brick-and-mortar retailers, as they account for less than 20% of the overall B2B segment. The thousands of small businesses derived from the Company’s e-commerce strategy are driving the recent growth the Company has experienced. Once the pandemic subsides, Candy Club expects these retailers to add significantly to the Company’s overall business by 2H FY2021.



New Candy Club catalogue items including some recently released Valentine's Day candy.

"In many ways, 2020 has been a year of full of challenges but Candy Club has thrived through it all," said Candy Club founder and CEO Keith Cohn. "Our exponential performance speaks for itself and Candy Club will not be resting in 2021. While 4Q FY2020 is a historically strong quarter, we are already seeing promising signs in January. Along with our new hires and strategic initiatives, I believe we will lead Candy Club to even more success in 2021 and beyond."

The Company's B2B customer acquisition lead generation marketing campaigns continued to perform well, generating a significant amount of new B2B e-commerce customers and revenue in 4Q FY2020 while meeting critical KPI and ROI targets. Candy Club intends to continue expanding and investing in this initiative throughout FY2021.

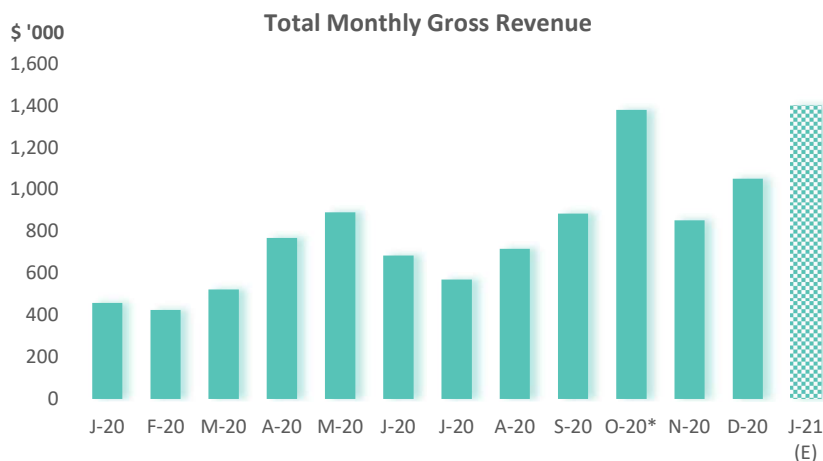
Candy Club's seasonal product ranges are becoming a more significant and profitable segment of the business. Following this, the Company has increased the quantity available to customers and has taken price increases in order to expand overall product margins.

The Company's business-to-consumer ("**B2C**") subscription business remained stable and continues to break even after all expenses on the first shipment and profitable by the second shipment.

In addition, Candy Club has entered into several agreements with third-party selling agencies with deep expertise in key verticals and close ties to many large, prominent national retailers. The Company believes these new relationships could accelerate the Company's growth.

Financial Performance

Total gross revenue for the quarter was up significantly QoQ at US\$3.29 million from the strong demand for its B2B products in the seasonally strong 4Q period, which includes Halloween and Christmas. On a YoY basis, total gross revenue grew 205%.



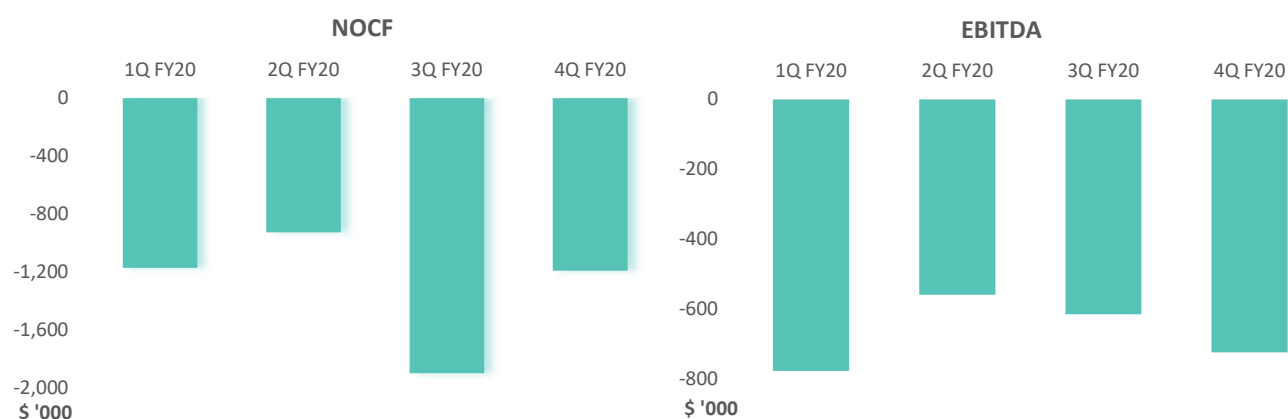
*October demand was \$1.7 million, however, due to logistics challenges, a portion was shipped in the first few days of November.

The B2B segment recorded revenue of US\$2.8 million during the quarter, representing a QoQ and YoY increase of 71% and 509%, respectively. The growth in the B2B segment has come largely through its e-commerce customers, driven through highly successful lead generation campaigns, which make up more than 80% of the B2B revenue.

B2B revenue is expected to exceed \$1.2 million in January, marking a 515% increase over the \$196,000 achieved in January 2020.

Adjusted EBITDA in 4Q FY2020 was down 18% QoQ. This was largely due to the Company's investments in growth initiatives including new key hires and B2B lead generation campaigns as well as expensing certain public related costs. Margins were down slightly to 41% during the quarter due to product sales mix. However, the price increases and product re-design initiatives implemented in early FY2021 are expected to improve margins back to 43% in 1Q FY2021 and growing throughout the year.

Net operating cash flow ("**NOCF**") was -\$1.19 million in 4Q FY2020, a \$707,000 improvement, or a 37% increase QoQ due to improved operating performance.



Candy Club had \$3.1 million in cash as at 31 December 2020, inclusive of the Director's investment expected in late January pending shareholder approval. Candy Club also had \$420,000 in borrowing base available under its current inventory financing agreement, with approval to increase the line another \$500,000 if the company requires. The Company is also selling 100% of its account receivables to its account receivables lender, further adding to its available working capital needs.

Outlook

After a record FY2020, FY2021 is off to an equally great start with January up 6x as compared to January 2020. With key strategic growth initiatives well underway, Candy Club's outlook has never been brighter. They include:

- New product development.
- New business development selling partnerships.
- Marketing initiatives to continue building the Candy Club brand.
- Scaling B2B customer acquisition digital advertising campaigns to grow the B2B customer and revenue base further.
- Development of a company-owned and operated B2B selling portal and other technology-stack improvements.
- Doubling the Company's operational throughput to meet its current and future revenue demand.

Once pandemic subsidies and brick-and-mortar retailers return, this will only serve to accelerate Candy Club's overall business that already has a lot of momentum.

"With the COVID-19 vaccine roll-out ongoing, hopefully, the end is in sight from the pandemic. We are looking forward to 2021," said Candy Club Chairman James Baillieu. "We are doubling our capacity so we can meet strong demand and have many initiatives to drive growth that will lead to further shareholder value as well as make our customers happy and satisfied."

Additional information

The December 2020 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:

Use of funds	Funds Raised at IPO and Use of Funds per Prospectus	Actual Expenditure of IPO Funds to 31 December 2020	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 December 2020 quarter

Payments to related parties and their associates during the quarter was \$194,000 which consists of salaries for the CEO, Keith Cohn, and one non-executive director, Andrew Clark, who is also actively engaged in a consulting capacity.

Authorised by the Board of Directors.

Justyn Stedwell

Company Secretary

Candy Club Holdings Limited

For more information, please contact:

Candy Club Holdings Limited

Keith Cohn

Managing Director

kcohn@candyclub.com

Justyn Stedwell

Company Secretary

justyn@stedwell.com.au

Civic Financial Communications

Grace Chew

Senior Account Manager

grace.chew@civicfinancial.com.au

+ 61 466 647 432

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 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.

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 2020

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	2,815	7,810
1.2 Payments for		
(a) research and development	(11)	(54)
(b) product manufacturing and operating costs	(2,584)	(7,982)
(c) advertising and marketing	(355)	(1,056)
(d) leased assets	(22)	(75)
(e) staff costs	(601)	(1,854)
(f) administration and corporate costs	(358)	(1,787)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(76)	(209)
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	(1,192)	(5,207)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment		(112)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (12 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	-	(112)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	2,552	4,462
3.2 Proceeds from issue of convertible debt securities		850
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities	(58)	(122)
3.5 Proceeds from borrowings	149	2,511
3.6 Repayment of borrowings	(275)	(755)
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	2,368	6,946

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	969	531
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(1,192)	(5,207)
4.3 Net cash from / (used in) investing activities (item 2.6 above)		(112)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (12 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,368	6,946
4.5	Effect of movement in exchange rates on cash held	(128)	(141)
4.6	Cash and cash equivalents at end of period	2,017	2,017

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	2,017	969
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)	2,017	969

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	194
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. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities	2,000	1,579
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities		
7.5 Unused financing facilities available at quarter end		421
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>Crossroads Financial LLC (existing)– \$2.0m credit facility secured by the value of our inventory that currently has \$421,000 of availability. Crossroads has increased this line from \$1mm at the time it was signed to \$2.0mm and has agreed to increase the line by an additional \$500,000 as the company requires.</p> <p>Versant Funding (existing) – An Accounts Receivable facility whereby the company sells its accounts receivables to Versant in exchange for a fee in order 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. Currently Versant has been purchasing 100% of the company's receivables</p>	

8. Estimated cash available for future operating activities	\$US'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(1,192)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,017
8.3 Unused finance facilities available at quarter end (item 7.5)	421
8.4 Total available funding (item 8.2 + item 8.3)	
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.05
<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: N/A

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 is expected to receive an additional \$1.2M USD from two of its larger shareholders by early February 2021 (pending shareholder approval), as part of the completed equity raise in Q4 2020. This brings total cash to \$3.2M at 12/31/2020, inclusive of this funding, and before any further increases in the financing line.

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: N/A

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: 27/1/21

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.