



23 July 2019

Quarterly Activities Report & Appendix 4C

Quarter ended 30 June 2019

Melbourne, Australia, 23 July 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

- During Q2 2019 the Company reduced its cash outflows, with net cash used in operating activities decreasing by \$1.29m compared to the prior quarter.
- All major cost centers experienced decreases in cash outflows in Q2 2019 vs. Q1 2019 including advertising (decrease of \$88k), staff (decrease of \$222k), administrative & corporate expenses (decrease of \$160k), and product manufacturing and operating costs (decrease of \$1.05m) with further staff reductions expected in Q3 2019 (\$700k on an annual basis) as a result of efficiencies gained due to the Company’s successful implementation of the NetSuite ERP system which will automate many functions currently handled by staff and as the majority of IPO and related deal costs have now been paid down.
- Inventory balance increased by \$624k in order to meet 2H 2019 customer demand which is strongest for Halloween, Thanksgiving and Christmas holiday sales.
- The wholesale division (B2B) achieved total revenue of \$741k in 1H 2019
- The subscription division (D2C) continues to be run for efficiency in order to capitalize on the significant traction being achieved in B2B.
- KPIs were strong during Q2 2019 in both the B2B and the D2C business segments with B2B increasing its total customer base by 80% during to quarter to 1,047 retailers. Reorder rates accounting for ~40% of all revenue due to strong retail sell-through and several major national retailers expanding the numbers of stores carrying the Company’s product line.
- In the D2C segment customer acquisition cost (CAC) was at an all-time low of below USD \$23 for the period.
- Several national retail chains that were initially testing the Candy Club product line have significantly expanded the number of their locations carrying the Company’s product lines or have committed to doing so in 2H 2019 including Hallmark Stores, Spencer’s Gifts, Macy’s, Bed Bath and Beyond, Candytopia, Ace Hardware and Caesar’s Palace, Francesca’s, Lick and many others. We look forward to updating investors with the status of these accounts throughout Q3 CY19.
- In early July 2019 the Company announced a rights issue to raise up to AUD \$3.7m in order to strengthen the Company’s Balance Sheet, purchase margin improving automation equipment

and allow it to build sufficient inventory to meet anticipated 2H demand and expects to close the round in early August.

- The Company's C-level executives are all taking voluntary salary cuts, effective immediately, in exchange for additional equity in the Company, in order to remain fully aligned with shareholder objectives, conserve cash and expedite the Company's timeline to achieve profitability.

Operating Results and Cash Outflows

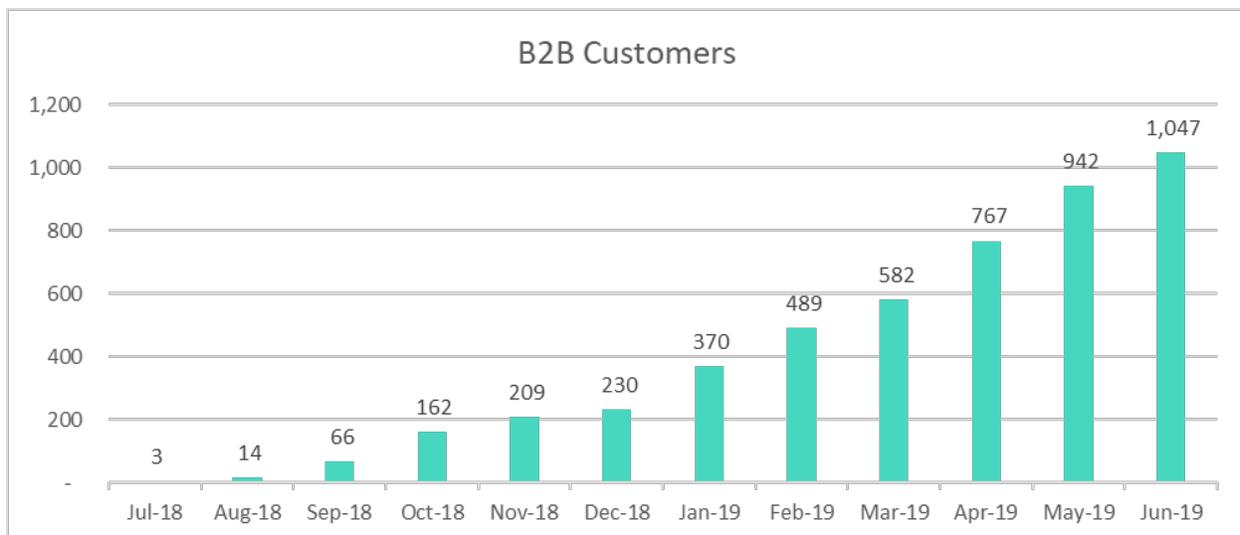
The Company has reduced net operating cash outflows by \$1.29m compared to the prior quarter despite an inventory build-up of \$624k required to support expanded demand in the B2B business during 2H 2019. The decrease in net outflows was driven largely to the elimination of IPO deal costs and other one-off costs the Company expensed in Q1 2019 that have been paid in full.

The Company intends to achieve further reductions in cash outflows by improving gross margins following the implementation of manufacturing automation equipment during late Q3 and by reducing staff and administrative costs following implementation of the Netsuite ERP system.

C-level management, including the Company's CEO, COO and CFO are all taking voluntary salary cuts, effective immediately, in exchange for equity in the Company, as they are committed to conserving the Company's cash, expediting the timeline to achieve profitability and remain fully aligned with all stakeholders in the business.

Wholesale Division (B2B)

The Company's B2B customers typically demand seasonal product around the key holiday seasons of Halloween, Thanksgiving and Christmas during which they experience significantly greater sell-through of the Company's product. Thus, inventory is being ordered through Q3 2019 to ensure we capitalize on our growing retail customer base and the 3,000+ physical locations our products will be carried in during the peak holiday seasons in 2H 2019.



Keith Cohn, CEO of Candy Club said, "We have always expected B2B to be highly seasonal underpinned by Halloween, Thanksgiving and Christmas. The first half of 2019 has allowed us to grow our retail

customer base from 230 to 1,047. We are very much looking forward to capitalizing on the USA holiday seasons and an exciting 2H 2019.”

Direct-to-Consumer Division (D2C)

The Company’s D2C segment continues to be operated for maximum efficiency with the cost per acquisition coming in below USD \$23 during Q2 2019. Greater marketing efficiency combined with lower overall marketing spend and minimal direct overheads required to run this business have turned the D2C segment positive from a margin contribution perspective.

Candy Club also launched a more traditional e-commerce website that allows customers to purchase the Company’s products without requiring a subscription. It intends to initially market this business to its database of 250,000 current and former subscribers, 2m email leads, and 1m Facebook followers and 100k+ Instagram followers.

Margin Improvement

From April 2019, the Company improved net margins in the B2B division by negotiating a 50% reduction in freight costs. There is further scope to reduce freight expenses in this segment by a further 15% and the Company is actively working on this initiative.

With the deployment of automation equipment in the Company’s fulfillment facilities where its product is packaged, net margins of the B2B and D2C businesses are expected to improve by a further 10% points. This equipment will reduce labor costs while improving the total production capacity by up to 3 times.

Keith Cohn, CEO of Candy Club said, "We are extremely pleased with the progress we are making in acquiring new retail partners, the strong sell-through they are experiencing and the resulting expansion of our retail partner relationships. Operationally, we continue to drive fixed costs down, operating margins up, and expect there will be opportunities to improve margins further in the future as the business achieves more significant economies of scale as our customer base continues to grow”.

Rights Issue

As announced on 4 July 2019, the Company is undertaking a 1:3 pro-rata non-renounceable rights issue (**Rights Issue**) to eligible shareholders of up to approximately 46,363,578 fully paid ordinary shares at an issue price of \$0.08 per New Share (together with one free-attaching listed Class A Option to acquire Shares exercisable at \$0.10 on or before 31 May 2023 for every one Share subscribed for and issued). Shares issued under the Rights Issue will rank equally with all Shares already on issue.

The Rights Issue will raise a maximum of approximately \$3,709,086. Funds raised will be applied towards increasing inventory of confectionary sold by the Company and employing additional sales personnel, as well as for general working capital and the costs of the Offer.

It should be noted that all non-executive Board members intend to take up their full pro rata entitlements under the Rights Issue. Further, a former Candy Club board member and well-known Australian investor, James Baillieu, has advanced AUD\$356,000 to the Company under the Debt Raising (as defined in the Prospectus for the Rights Issue), which Mr Baillieu intends to apply towards his

participation in the Rights Issue via the Debt Conversion Facility (as defined in the Prospectus for the Rights Issue).

Key dates for the Offer

Event	Proposed Date
Announce Offer and lodge Appendix 3B with ASX	Thursday, 4 July 2019
Lodge Prospectus with ASIC and ASX	Thursday, 4 July 2019
Notice sent to securityholders	Monday, 8 July 2019
"Ex" date	Tuesday, 9 July 2019
Record Date for determining Entitlements	Wednesday, 10 July 2019
Prospectus and personalised Entitlement and Acceptance Forms dispatched to Eligible Shareholders	Monday, 15 July 2019
Last day to extend Offer Closing Date*	Wednesday, 24 July 2019
Offer Closing Date*	Monday, 29 July 2019
Shares quoted on a deferred settlement basis*	Tuesday, 30 July 2019
ASX notified of under subscriptions*	Thursday, 1 August 2019
Issue date of New Securities and dispatch of holding statements*	Tuesday, 5 August 2019
Quotation of New Securities issued under the Rights Offer	Wednesday, 6 August 2019

About Candy Club

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

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")

30 JUNE 2019

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers	1,621	3,479
1.2	Payments for		
	(a) research and development	(45)	(75)
	(b) product manufacturing and operating costs	(1,709)	(4,463)
	(c) advertising and marketing	(426)	(940)
	(d) leased assets	(42)	(107)
	(e) staff costs	(765)	(1,752)
	(f) administration and corporate costs	(526)	(1,212)
1.3	Dividends received (see note 3)		
1.4	Interest received		
1.5	Interest and other costs of finance paid	(83)	(165)
1.6	Income taxes paid		
1.7	Government grants and tax incentives		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date 6months) \$A'000
1.8	Other (provide details if material)		
1.9	Net cash from / (used in) operating activities	(1,975)	(5,235)

2.	Cash flows from investing activities		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(69)	(69)
	(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)		
2.6	Net cash from / (used in) investing activities	(69)	(69)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		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	(279)	(366)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6months) \$A'000
3.5	Proceeds from borrowings	1,581	2,143
3.6	Repayment of borrowings	(336)	(1,460)
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	966	5,341

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year to date	1,115	12
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,975)	(5,235)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(69)	(69)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	966	5,341
4.5	Effect of movement in exchange rates on cash held	(19)	(31)
4.6	Cash and cash equivalents at end of quarter	18	18

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	18	1,115
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)	18	1,115

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	128
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
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	

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
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	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities		
8.2 Credit standby arrangements	854	854
8.3 Other (please specify)		
8.4 Revolving Line of Credit - 12 Months - Annual Interest Rate - Prime + 5% - Total drawn as of 6/30/19 - \$600,000 USD		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	50
9.2 Product manufacturing and operating costs	2,200
9.3 Advertising and marketing	325
9.4 Leased assets	85
9.5 Staff costs	660
9.6 Administration and corporate costs	700
9.7 Other (provide details if material)	80
9.8 Total estimated cash outflows	4,100

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
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: 23 July 2019

Print name: Justyn Stedwell

On behalf of the Board of Directors

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.