

Record monthly and quarterly sales results led by multiple significant customer, product and operational successes

Strategic initiatives on-track to continue record results in 4Q 2021

- **3Q FY2021 B2B Revenue increased 125% YoY to \$3.6m from \$1.6m**
- **Expect to report a record month for October with \$3.0m in B2B revenue**

Quarterly Activities Report & Appendix 4C for the quarter ended 30 September 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 30 September 2021 ("**3Q FY2021**"). Note that all dollar figures are in US dollar terms unless otherwise specified.

The Company achieved total gross revenue of \$4.12 million in 3Q FY2021, representing an increase of 95% year-on-year ("**YoY**"). This was driven by its business-to-business ("**B2B**") segment achieving \$3.6 million in gross revenue during 3Q FY2021 (+125% YoY). On a quarter-on-quarter ("**QoQ**") basis, the B2B segment grew by 52%.

The Company believes that had it not experienced the short-term disruptions in its supply chain consisting mainly of minor shipping delays, labor shortages and component outages due to the widely reported industry-wide challenges in the US, the Company would have shipped products generating revenues of approximately \$4.2 million in its B2B segment in the latest quarter and reported even stronger 3Q results. These shipping disruptions were relatively short with no sales expected to be lost as a result.

Operational Highlights:

Candy Club continues to expand its bricks-and-mortar distribution footprint with both prominent national retailers and specialty boutiques of all types and has added more than 2,000 customers and 4,000 outlets in the latest quarter.

Due to strong retail consumer demand for its products, the number of large regional and national customers currently carrying Candy Club's products in broad distribution on a permanent ranging basis has expanded significantly to ten (10). Key among these retailers are Kohl's, JCPenney, Barnes & Noble, Hobby Lobby, Belk and many others, who each have the potential to significantly grow their sales of Candy Club products in 2022 and beyond.

"Candy Club continues to thrive with retailers of all shapes and sizes, across the entire US and in nearly every retail sales channel imaginable. Whether in high-end fashion boutiques in the Hamptons, national department stores like Kohl's or JCPenney or hospitality venues like Great Wolf Lodge Water Parks, we are experiencing strong sell-in, sell through and re-orders of our products," says Founder and CEO Keith Cohn. "I cannot think of another CPG product line that can go into as many different retail outlets and in as many sales channel as ours can. So long as we continue to execute the sky is truly the limit for this business."

Candy Club's e-commerce B2B business continues to thrive. The Company continues to be one of the top selling brands on the 3rd party managed Faire and Tundra marketplaces. In addition, the Company has recently launched its own proprietary e-commerce wholesale platform, which continues to fuel the Company's growth with new customers being acquired every day and encouraging levels of returning-customer repeat orders. Continued focus and investment will be made in the Company's proprietary wholesale platform which is expected to continue to grow and be a strong contributor to future sales results. Through the first three quarters of 2021 the 3rd party and company-managed platforms are up 2.5x on a YoY basis.

The Company was recently invited to participate in a national TV segment on Good Morning America. This event drove great national exposure and awareness for the Candy Club brand and its products and generated close to \$100,000 in incremental revenue.

Candy Club recently completed its previously announced expansion of its production capabilities, which are now fully operational. This initiative increases its finished goods capacity and enables anticipated increases in future demand to be met, increased gross margins beginning to be realised in 1Q 2022 through greater efficiency and faster delivery of products to customers which helps to offset some of the delays many companies are experiencing due to global issues.

Future outlook:

The Company forecasts a record \$3.0m in B2B revenue in October 2021 as well as record quarterly revenues in 4Q 2021. October will represent an approximate 2.0x increase over its previous best month of \$1.58m and a 2.5x increase over October 2020. EBITDA loss for the month will drop considerably to under \$200,000 for the period.

Candy Club has secured a test with Target, the #2 retailer in the US, that will ship in October and be on shelves in time for Christmas.

The Company has recently opened four (4) retail concepts in the form of in-mall kiosks, carts and wall units. As these have just recently opened, it is too early to report on their success and future expectations.

The Company plans to expand its distribution internationally by selling its products into the UK and EU later this year, initially through its relationship with Faire. This is the first step in testing how the Company's products will fare internationally and will be one of several initiatives intended to be undertaken to expand its international footprint.

To expand overall gross margins and help offset some cost increases due to broader inflationary and global supply chain factors affecting companies worldwide, Candy Club intends to increase prices beginning 1 January 2022.

Candy Club is in the process of finalising the expansion of its proprietary confectionery offerings which it anticipates launching in early 2022. The Company's leadership considers this to be a key strategic initiative as it offers further differentiation of the Company's products in the marketplace which is anticipated to provide long-term benefit for all shareholders.

Financial Highlights

	3Q FY2020 (actual)	2Q FY2021 (actual)	3Q FY2021 (estimate)	QoQ Change	YoY Change
Total gross revenue	\$2.18m	\$3.05m	\$4.12m	35%	89%
B2B revenue	\$1.60m	\$2.37m	\$3.60m	52%	125%
B2C revenue	\$0.58m	\$0.67m	\$0.52m	-22%	-10%
Gross margins	43%	43%	41%	-2 ppts	-2 ppts
EBITDA*	-\$0.56m	-\$1.46m	-\$1.38m	5%	-146%
NOCF	-\$1.90m	-\$3.14m	-\$4.39m**	-40%	-131%

*EBITDA is reported on an operating basis prior to any non-cash audit adjustments and accruals

**The majority of the 3Q FY2021 NOCF of \$4.39 million went to build additional inventory required to support expected strong 2H customer demand and financing Accounts Receivables

Note: Figures in value and percentages tabulated above may not add up due to rounding and are unaudited figures.

Income Statement

Candy Club achieved \$4.12 million in total revenue in 3Q FY2021, led by a record \$3.60 million in B2B sales in the quarter, an increase of 125% YoY. Total B2B revenue for the quarter would have been expected to be approximately \$4.20 million had the Company not experienced the operational challenges due to widely reported delays impacting supply chains throughout the US. No sales were expected to be lost as a result of these short-term supply chain delays. Revenue gains were driven by a combination of acquiring a significant number of new customers as well as achieving high re-order rates from existing customers.

All dollar figures throughout this document are in US Dollars unless otherwise specified.

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The Company's gross margins dropped from 43% to 41% in the quarter due to unexpected cost increases in freight and components related directly to the global supply chain issues impacting the broader US market, overtime expenses required to keep up with demand prior to the implementation of the Company's new production equipment coming on-line late in the quarter and sales mix of customers. Candy Club expects gross margins to rebound by Q1 2022 after:

- (a) the realisation of cost reductions from the efficiencies gained following implementation of the new production equipment;
- (b) the price increase set to take place on 1 January 2022; and
- (c) further cost reductions the Company has secured with key vendors and continues to negotiate with others as additional economies of scale are achieved.

Overall, the Company reiterates its prior guidance that it expects to achieve gross margins of 48%+ over the next 12 – 18 months.

Despite a 35% QoQ increase in overall revenue, EBITDA loss improved just 5% as the Company invested in technology, infrastructure and the acquisition of new customers through digital marketing campaigns for Candy Club's proprietary B2B wholesale e-commerce platform. It is anticipated that these strategic investments may require several months before becoming profitable as newly acquired customers return to make repeat purchases. In October 2021, the Company projects a substantially lower EBITDA loss of under \$200,000 on revenue of \$3.0 million. As long as Candy Club projects to grow significantly on a YoY basis, the Company's management and board believe that investing in future growth is the most prudent way forward as opposed to slowing growth to focus on near-term profitability.

NOCF increased by 40% in the quarter as the Company continued to invest in future growth. Key investment activity in the quarter included the purchase of additional inventory, new customer acquisition, capital equipment and start-up costs related to its retail launch. NOCF also grew in 3Q 2021 as all the Company's large bricks-and-mortar national accounts bought on terms but don't pay for their merchandise on average 60 days after receipt of goods.

Management's view on the Company's NOCF is similar to that of its EBITDA in that, as long as Candy Club is projected to grow significantly on a YoY basis, it will continue to invest ahead of growth in order to maximize long-term value for all shareholders.

Balance Sheet

As of 30 September 2021, Candy Club had \$4.5 million in cash on hand with approximately another \$2.5 million in cash expected to be received in 4Q 2021 after the draw down of the remainder of the \$7.5 million WTI debt facility becomes available upon Candy Club meeting the key performance indicators at 31 October 2021 (ASX announcement dated 14 April 2021). The Company has assessed these key performance indicators and is confident they will be achieved.

In addition to the \$7 million in cash the Company is expected to have access to, Candy Club has grown its inventory balance to almost \$7.5 million and anticipates it will have another \$3.0 million in accounts receivable at 31 December 2021.

Operational Performance

Candy Club continued to meet or exceed all operating KPI expectations in 3Q FY2021.

The Company's total number of retail doors continued to grow to more than 23,000 and the number of B2B customers exceeded 14,000 as of 3Q FY2021. Quarterly re-order rates from its top 25 customers once again achieved an impressive 90% off the back of strong consumer demand for its products at retail.

Total Retail Doors & Customers



While the thousands of small businesses that comprise the Company's e-commerce strategy remain strong, Candy Club's 2H 2021 growth is also being driven by the return of traditional bricks-and-mortar retailers as the Company continues to aggressively expand its distribution in this segment and the US economy continues to reopen.

Additional information

Payments to related parties and their associates during the quarter were \$178,000, 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")

30 SEPTEMBER 2021

Consolidated statement of cash flows	Current quarter \$US'000	Year to date (9 months) \$US'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,875	8,990
1.2 Payments for		
(a) research and development	(68)	(89)
(b) product manufacturing and operating costs	(4,784)	(11,553)
(c) advertising and marketing	(761)	(1,897)
(d) leased assets	(25)	(78)
(e) staff costs	(783)	(2,271)
(f) administration and corporate costs	(693)	(1,752)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(149)	(394)
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	(4,388)	(9,044)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(49)	(154)
(d) investments		
(e) intellectual property		
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 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	(49)	(154)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	2,254	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	(61)	(780)
3.5	Proceeds from borrowings		5,278
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	2,193	11,683

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	6,790	2,017
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(4,388)	(9,044)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(49)	(154)

Consolidated statement of cash flows		Current quarter \$US'000	Year to date (9 months) \$US'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,193	11,683
4.5	Effect of movement in exchange rates on cash held	(67)	(23)
4.6	Cash and cash equivalents at end of period	4,479	4,479

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	4,479	6,790
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)	4,479	6,790

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	178
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. 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	5,000	5,000
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	<p>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> <p>Venture Lending & Leasing IX Inc. - Candy Club executed a debt facility in April 2021 for up to US \$7.5m of which US\$5 million has been drawn down. 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. An additional US\$2.5m draw down is available on October 31, 2021, based on achievement of key milestones, which Candy Club is on track to meet.</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)	(4,388)
8.2	Cash and cash equivalents at quarter end (item 4.6)	4,478
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	4,478
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	1.02
<p><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></p>		
8.6	<p>If item 8.5 is less than 2 quarters, please provide answers to the following questions:</p> <p>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> <p>Answer: Yes. The Company expects to have the cash it requires to meet its operating requirements. The above calculation does not factor in the additional \$2.5 million in cash it expects to receive in the next 30 days as it draws on the remainder of its debt facility with WT1.</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 believes it currently has the working capital needed to scale the business, and also expects to receive an additional US\$2.5m in the next 30 days, as it draws on the remainder of its debt facility with WTI.

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: 26/10/2021

Authorised by: Justyn Stedwell
(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.