

Bubs value surges \$115 million after deal to help ease US formula crisis



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May 30, 2022 - 12.59pm

Shares in baby formula company Bubs Australia rocketed on Monday after the company secured a deal that Joe Hockey's advisory firm Bondi Partners helped to broker, to send 1.25 million tins to the United States to ease a nationwide shortage. [<https://www.afr.com/companies/manufacturing/a2-bubs-seen-gaining-from-us-formula-shortage-20220523-p5anpo>]

Shares in the ASX-listed minnow jumped as high as 86¢, but ended the day up over 40 per cent to 68¢ – adding \$115 million to its market valuation – after US President Joe Biden tweeted [<https://www.afr.com/world/north-america/bubs-australia-secures-deal-to-send-baby-formula-to-us-20220529-p5apb0>] that “27.5 million bottles of safe infant formula manufactured by Bubs Australia are coming to the United States”.



Bubs Australia CEO Kristy Carr at the Dandenong Factory in Melbourne on Monday. **Louis Trerise**

Chief executive Kristy Carr told *The Australian Financial Review* this was a “game changer” for the small company that had already made some headway into the \$US4.3 billion (\$6.1 billion) US formula market with its toddler formulation last year. [<https://www.afr.com/companies/retail/bubs-eyes-sales-in-us-grocery-pharmacy-chains-20220131-p59sil>]

“It’s not surprising that actually the White House has spoken publicly about this deal because we have been in discussions with the US Department of Health and Human Services for a couple of weeks. This is a national emergency over there now,” she said.

“This is a game changer for us. The toddler segment of the market is a very small niche segment, a large majority of infant nutrition takes place between zero and 12 months. This was always a space that we had wanted to enter.”

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Bondi Partners, led by founding partner and former treasurer and US ambassador Mr Hockey, includes Peter McGauran and Peter Beattie among its well-connected advisers based in Washington and Sydney. Mr Hockey is now a Washington-based consultant advising companies navigating the US market.

American multinational Abbott Laboratories closed its Michigan plant [<https://www.cnn.com/2022/05/21/abbott-ceo-apologizes-for-baby-formula-shortage-in-washington-post.html>] in February after four babies fell ill – and two died – after having formula made in that plant.

The US Food and Drug Administration has eased import rules for formula to deal with the crisis, which has also been hampered by global supply chain shocks.

Tricky logistics

The US shortage is so acute that Mr Biden has invoked decades-old wartime powers that require US suppliers to provide needed resources to manufacturers before any other customers, in a move to speed up production.

Ms Carr said the group was in talks with the US government about the tricky logistics of delivering the first shipment of 500,000 tins, which weighed 600 tonnes and would take up four 747 full cargo planes.

The Bubs-owned facility at Dandenong has been operating 24/7 for the past two weeks and added shifts, which will continue into the future.

The plant can produce about 10 million tins of formula. Ms Carr said Bubs was not diverting tins from Australia, so there was no need for local supply concerns.

“Absolutely not. We always make sure that our Australian home base is protected. We’re not just talking about one product here, every single one of our infant formula products ... have all been approved for immediate import at once,” she said.

Ms Carr said the facility had the room and technology to operate a second high-speed operating line – likely to come on board within a year – to help triple the capacity, to about 30 million tins.

“That does involve some capex that we haven’t made that decision right now, but we’ve already mapped out exactly how to do that,” she said.

The US formula market is highly concentrated, with the top four players accounting for about 90 per cent of the market.

Ms Carr said the crisis had turned into a “once in a lifetime” business opportunity for Bubs that would not be wasted.

“We have spoken to every single US retailer – the top 50 retailers in the US – about stocking our products,” she said. “Being able to get that brand awareness is significant.”

A2 Milk shares jump

Analysts have said Bubs was better placed over larger rival The a2 Milk Company to capitalise on the shortfall in baby formula, but the dual-listed New Zealand group still gained 45¢ to \$4.77 on Monday – the highest in two months – though still a fraction of the 12-month high of \$7.39 hit in October.

A2 Milk chief executive David Bortolussi told the *Financial Review* the baby formula company was standing by to assist the US government in the crisis, leveraging its current fresh milk distribution in the US.



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“We submitted an application to the US Food and Drug Administration last week under the temporary enforcement discretion to supply infant milk formula,” he said.

He said a2 Platinum infant milk formula could be sent from New Zealand, subject to stock availability.

A2 Milk supplies fluid milk, Half and Half and Hershey’s a2 Milk to about 27,000 stores for major customers in the grocery, natural and club channels in the US, but not baby formula.

Carrie LaFrenz has more than 10 years' experience as a business journalist having previously covered healthcare, retail/consumer goods, industrials and agribusiness. She is based in our Sydney newsroom. *Connect with Carrie on [Twitter](#). Email Carrie at carrie.lafrenz@afrc.com*