

Bubs posts record quarterly earnings as daigou market rebounds sharply amid US expansion

By **JARED LYNCH**, REPORTER

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Goat milk-focused infant formula brand Bubs has recorded a three-fold surge in revenue across the corporate Chinese daigou market, exceeding pre-pandemic levels.

After suffering an earnings rout a year ago when Covid-fuelled travel bans sparked the collapse of the daigou or reseller market, Bubs has [reset its China strategy](#), which focuses more on traditional distribution.

It is still engaging heavily with daigous but instead of relying on students and tourists buying product in Australia and sending to Asia, it now sends product in bulk to China to be distributed to resellers.

In the three months to December 31, sales across the corporate daigou channel soared 196 per cent from the same period a year earlier. Overall, revenue surged 56 per cent to \$19.9m across the quarter – a company record.

Chairman Dennis Lin and chief executive Kristy Carr are now both in Los Angeles, holding meetings with various US retailers and regulators as part of [the company's American expansion](#).

“The American people will be a very clear growth driver for the business moving forward. But I think the real backbone to these strong results and record results for the company have been delivered through China business, and that’s China both daigou but also cross border e-commerce business, which has grown considerably in the last six months,” Ms Carr said.

Bubs shares closed up 5.6 per cent at 47c on Monday, having jumped as high as 51c earlier in the session. The broader sharemarket was broadly flat.

The daigou is split into two groups, retail and corporate. The retail segment traditionally relied on products bought in Australia and sent to China, while the corporate arm is more organised, dealing with the company directly and consumers in China paying a fee.

“The actual corporate or Australian daigou, that we have always worked with and engaged as a community for many years are still there and they’re still the same people that are marketing our products and educating Chinese consumers and introducing the Bubs brand to Chinese consumers. So that is a very valuable marketing tool,” Ms Carr said.

“The retail daigou, which is your transient traffic – your Chinese tourists, your Chinese students, people coming in and outbound and sending parcels consumer to consumer ... or connections in China – that part of the channel that ecosystem has certainly not returned. It hasn’t returned for anyone in the category. We have high hopes that once international borders open fully that that business will return.”

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In the meantime, the Bubs has engaged distributor AZ Global to execute what it calls “daigou 2.0” or sending product in bulk to China and engaging with daigous in their home territory.

“This channel partnership has resulted in very strong Daigou demand for both Bubs Goat and Organic Grass-fed Infant Formula products – nearly quadrupling revenues over the previous corresponding period -, as well as CapriLac adult milk powder, nearly doubling revenue on the previous corresponding period,” Ms Carr said.

At the same time, demand from Australian parents has continued to grow, with sales rising 31 per cent across Woolworths, Coles and Chemist Warehouse, recording a 3.9 per cent gain in its share of the Australian infant formula market.

It helped round off the second consecutive quarter of positive cash flow, with the company’s cash reserves now totalling \$30.6m, up from \$28.3m in the prior quarter.

Ms Carr was confident Bubs had enough manufacturing capacity to serve growing demand, which is expected to strengthen further when the retail daigou market returns and as the company gains more traction in the US.

“One of our biggest advantages is that we have quite a unique business model for the infant formula industry. We are vertically integrated, through from our milk source through to our canning manufacturing and that being very much brand driven and brand led.

“We are certainly producing more products than we’ve ever produced. We’ve just moved our facility from one shift, five days a week to three rotating shifts 24/7. So being able to have our own facility and switch on that kind of production momentum is going to be really key to be able to continue to deliver this rapid growth trajectory.

“But certainly from a manufacturing standpoint, despite the supply chain disruptions that will continue no doubt to experience throughout the next sort of 12 months, we have a very strong level of capacity to be able to step up into.”

Mr Lin said that the US expansion will not “necessarily” deliver “immediate returns”. Although it is confident of gaining traction after appointing former federal treasurer Joe Hockey’s Bondi Partners as an Adviser.

“Certainly the US is such an important market for us. It doesn’t necessarily mean it’s going to deliver immediate returns. But similar to China, Kristy and I were travelling to China very, very regularly during that strategy setting period and right now, it’s perhaps no different.

“We felt that it’s important that we are actually here on the ground because ultimately, we’re selling products to the consumers here in the US. It’s really important to hit the pavement, talk to a lot of people, speak directly to the retailers together with our team and speak to as many people as we can, which is what Kristy and I are doing.”

Bubs has promoted its chief manufacturing officer, Richard Paine, to chief operating officer following the resignation of Fabrizio Jorge. Mr Jorge joined Bubs last May and has left to become Beston Global Food’s CEO.

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