

# Half Year 2019 Financial Results and Strategic Outlook

## Highlights

- 1H FY19 financial results compared to same period 1H FY18:
  - > Total sales **up 142%** to \$21.8m
  - > Owned brand sales **up 424%** to \$1.40m
  - > Gross profit **up 274%** to \$4.2m
  - > Gross margin **up 46%** to 19.2%
    - (21.25% gross margin for Dec 18 quarter)
  - > Same store growth **up 30%** in sales and **71%** in gross profit
  - > Stabilisation of fixed operating expenses
  - > Online revenue continues to contribute 30% of total sales

## Key financial performance highlights

- All stores profitable post direct store operating expenses
- AuMake retail network now generating sector leading margins with estimated current gross margin double that of industry peers (20% vs 10%)
- **Significant decrease** in operating costs as a percentage of sales from 46% in 2H FY18 to 31% in 1H FY19, due to increasing efficiency of operations and effective cost controls
- Improved conversion of cash to gross profit with operating cash outflow decreasing from \$4.6m 2H FY18 to \$2.1m 1H FY19 (down 76%)
- **Gross profit growth rate significantly outpacing operating expenses**
  - > Significant turnaround in last 6 months
- Exciting progress on China initiatives with JiaJia TV and JD Worldwide

## Strategic outlook

- During 1H FY19, AuMake continued to build a market leading brand and **scalable business model** in the China-Australia cross-border retail market
- AuMake estimates the market size for the value of Australian products to China via cross-border retail stores to be circa **A\$1.5-2 billion per annum**
- Company finalising strategic plan to rapidly increase existing market share **without the need for significant capital investment**
- Trading conditions have been strong after Chinese New Year, with no structural changes being observed post the implementation of 1 January 2019 e-commerce legislation.



# Financial performance overview

AuMake International Limited (“AuMake” or the “Company”) today announced its financial performance for 1H FY19 with all financial metrics showing exceptional growth relative to the corresponding period 1H FY18.

All stores continue to perform strongly and are profitable post direct store operating expenses with AuMake stores averaging a gross margin double that of industry peers (20% vs 10% respectively). A significant contributing factor to the Company’s gross margin performance is the increasing sales of owned brand, and lesser known products, which forms a key tenet of the AuMake business model.

The operating costs across the business have reduced as a result of operational efficiencies from the automation of online sales operations, streamlining of store rostering systems and supply chain. As a result, operating costs as a percentage of sales decreased by 15% from 46% in 2H FY18 to 31% in 1H FY19.

The continued maturation of the AuMake business model has also led to significant improvement in the ability for the Company to derive a greater return from resources, which has yielded significant increases in sales and gross profitability as highlighted above.

During 1H FY19, the Company was focussed on improving gross profit (primarily through increasing margins) without materially increasing variable operating costs. As demonstrated below, the Company is pleased to have achieved this with gross profit up 108% 2H FY18 to 1H FY19, while operating expenses only increased 19% in the same period. AuMake is more confident than ever in the business model and, with increased scale, can generate long term profitability for shareholders.

	1H FY18	2H FY18	1H FY19
<b>Sales (m)</b>	9,029	12,354	21,859
<b>Sales Growth Change (%)</b>		37%	77% <sup>1</sup>
<b>Gross Profit (m)</b>	1,124	2,019	4,205
<b>Gross Profit Change (%)</b>		80%	108% <sup>1</sup>
<b>Total Operating Expenses (m)</b>	2,472	5,714	6,802
<b>Total Operating Expenses Change (%)</b>		131%	19% <sup>2</sup>

1. Increase in sales and gross profit growth due to higher cash to gross profit conversion rate

2. Budgeted increase in variable costs relating to direct labour and leasing costs in line with retail store network growth and increased marketing spend.

The business remains well capitalised with \$11.7m of current assets (\$8.0m cash-on-hand and \$3.7m in inventory).

## Non-retail store growth

The online database grew to over 110,000 members during the half (from 93,000 in September 2018), with online sales continuing to contribute 30% of overall gross sales.

The Company’s China initiatives made exciting progress during the period with the JiaJia TV distribution agreement generating owned brand product sales of over \$100,000 across five screenings, with one product line selling out. As a result of such a successful trial, JiaJia TV has proactively engaged with AuMake to plan the next round of TV screenings scheduled for March 2019, with the mutual objective of creating a valuable conduit for AuMake owned brand products to be supplied directly to the Chinese market.

As flagged in the December quarterly, initial sales are expected in Q4 FY19 from the exclusive strategic agreement with JD Worldwide. Both AuMake and JD Worldwide teams are working together closely in Beijing to build online flagship store architecture and co-ordinate marketing campaigns over the course of calendar year 2019.



The development of this relationship with JD Worldwide has been maturing, with both parties exploring synergies in other parts of the JD Worldwide business which can be leveraged in the Australian market. AuMake is delighted that one of China's largest e-commerce companies have chosen to align themselves exclusively with AuMake, to create another force in Australia, to Alibaba's Tmall and their alignment with Chemist Warehouse as well as Kaola.com and Priceline pharmacies. The Company looks forward to updating the market should any of these further opportunities with JD Worldwide develop to a material stage.

## Strategic outlook

### Keong Chan, Executive Chairman, states:

“Over the last six months, we have been using our existing 13 retail stores to test and refine our business model to potentially change how customers in our industry interact with Australian and New Zealand products. We believe that we have developed a business model that can now act as a catalyst for rapid market share growth to complement the multitude of exciting inorganic growth opportunities that are continually presented to us as the leader of the cross border retail market in Australia.

As a result of our willingness to challenge industry precedents, the financial performance of AuMake retail stores is market leading in terms of gross margin and owned brand product sales. Notably, and of significant value to our business, is that AuMake delivers gross margins that are on average double those of our competitors.

With these foundations in place, the Board and management are finalising a strategic plan to rapidly grow the Company's market share, with a focus on delivering sustained profitability for our shareholders, in a capital efficient manner.

The size of our market has, until now, largely been unquantified, however we estimate that approximately \$1.5-2 billion of Australian products is being sent to China via daigou/Chinese tourist stores (collectively termed “cross border retail”) on an annual basis.

Significantly increasing our market share will improve the value of the AuMake brand, not only in Australia, but also with our growing popularity in mainland China. In turn, this will further drive improvements in total store foot traffic and purchasing power, with commensurate increases in sales, gross margin and profitability.

An increase in market share and solidifying our leading position in the industry will also enhance our owned brand sales and non-retail store related financial performance, via our online store activity and initiatives with JiaJia TV and JD Worldwide in China. These relationships that we have formed in China and ones which we are exploring should not be underestimated in terms of their ability to singularly transform our business.

Trading conditions have been strong after Chinese New Year, with no structural changes being observed post the implementation of 1 January 2019 e-commerce legislation. This is consistent with our commentary regarding the overall long-term demand from China for Australian and New Zealand products and the resiliency of the cross-border retail channel.

The Company continues to assess potential opportunities in new markets both domestically and in New Zealand, as well as complementary businesses particularly within the Chinese tourism market and in China with JD Worldwide. We look forward to updating the market and sharing our growth initiatives with our shareholders in the near future.

Lastly, with our leading position in the cross border retail market and as an ASX listed company, we have access to opportunities in China and within the Chinese community in Australia that are not accessible by our competitors. We believe this is an once-in-a-lifetime opportunity to take the a dominant position in our market in Australia which will open up unforeseen opportunities in China. During the last 6 months, we have proven that we can generate significant profits, and now we will strive to expand our market share to exponentially grow our market share and financial performance.”

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# About AuMake

AuMake International Limited is an ASX listed retail company connecting Australian suppliers directly with daigou and Chinese tourists.

AuMake engages with the growing and influential daigou and Chinese tourist markets, by offering a one-stop-shop retail network. This includes a range of Australian products across four main categories including:

- healthcare (supplements and food)
- skin, body care and cosmetics
- dairy products and baby food (including infant formula)
- wool and leather products.

Customers of AuMake value the full service offering which includes knowledgeable bilingual staff, multiple payment options (including WeChat, Alipay and UnionPay) and an in-store logistics service for the delivery of products to anywhere in the world including China.

[aumake.com.au](http://aumake.com.au)

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