

Bon Natural Life Limited
Edited Transcript

FY2021 Earnings

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CORPORATE PARTICIPANTS

Richard Hu – *Chairman and Chief Executive Officer*

Zhenchao Li – *Chief Financial Officer*

Yingchun Xue – *Chief Operating Officer*

Wenjuan Chen – *Chief Marketing Officer*

Maggie Zhang – *Investor Relations*

Bowen Bai – *Translator*

Taylor Zhang - *Translator*

PRESENTATION

Operator

Good day and welcome to the Bon Natural Life Limited 2021 Full Year Financial Earnings conference call. All participants will be in listen-only mode. For those on the phone, there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question please press star and two. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. For those on the webcast, you may submit questions throughout the event by typing in the Submit a Question box on your screen. Questions will be addressed after the formal presentation has ended. Please note that this event is being recorded.

I will now turn the conference over to Maggie Zhang, Investor Relations with the company. Please go ahead.

Maggie Zhang

Thank you, operator. And thank you all for joining us for Bon Natural Life's 2021 Fiscal Year Financial Results conference call. On January 31st, Monday, the company has released its annual report 20-F. A copy of the report can be found on sec.gov. Please note that this call is being recorded live and it will be available for replay.

I ask that you please take a moment to review our forward-looking statements. During the call we'll be making forward-looking statements about the company's performance and business outlook. These statements are based on how we see things today and contain elements of uncertainty. For additional information concerning the factors that can cause an actual result to differ materially from our forward-looking statements, please refer to our cautionary statement and risk factors stated in today's press release.

Joining me on the call today are: the Chairman and CEO of the company, Mr. Richard Hu; CFO, Mr. Zhenchao Li; COO, Ms. Yingchun Xue; and CMO, Ms. Wenjuan Chen.

I will now turn the call over to our Chairman and CEO. Mr. Hu will be speaking in Chinese and my colleague, Bowen Bai will translate his opening remarks into English. [Speaking Chinese].

Richard Hu

[Speaking Chinese].

Bowen Bai

Thank you, Maggie. And thank you, everyone, for joining us today. I will begin today's call by providing an overview of our business performance during the fiscal year ended September 30, 2021. Maggie will then provide a detailed overview of our 2021 year ended financials, highlighting the financial performance of each private category.

Richard Hu

[Speaking Chinese].

Bowen Bai

Now turning to slide 4, I'd like to briefly introduce our company for those who are new to our story. Bon Natural Life is a bio-ingredient solution provider in the natural health and personal care industry. We sell raw materials from farms and then process and break down the natural plants into natural chemicals that can be used commercially for the above-mentioned applications. We have three product categories, fragrance compounds, health supplements about bioactive food ingredients. Fragrance compounds are

using fragrances that go into consumer fragrance, oral care, detergents, and etc. Health supplements are powdered drinks, prebiotics, probiotics, and etc. Bioactive food ingredients are used in food preservatives and health supplements as well.

Richard Hu

[Speaking Chinese].

Bowen Bai

In slide 5, our customers include very well-known names in Asia. For example, Tong Ren Tang, Liangmianzhen, Jing Brands, and Angel Yeast. And our clients also include some of the biggest household names in US and Europe, like International Flavors and Fragrances, Mars Wrigley, Symrise, Fridal and ACS International.

Richard Hu

[Speaking Chinese].

Bowen Bai

Now turning to slide 6, I would like to briefly discuss our manufacturing facilities. We now have two facilities outside of Xi'an, China. Both are located within 90 minutes from the company's headquarter. We originally broke ground on a reserve production facility in Yumen. The construction is now underway and it is expected to be completed in June and be in production in September 2022. The new construction is expected to increase our production capacity of fragrance compounds and bioactive food ingredients by 200%, representing a 150% annualized growth potential in revenue.

Richard Hu

[Speaking Chinese].

Bowen Bai

In slide 8, I will provide an overview of our growth strategies of fiscal year 2021. After the IPO we have recruited new sales professionals and expand our sales channels on a global level. In addition, as we are building our new production facility in Yumen, the production capacity of Tongchuan facility has also been extended. Furthermore, by focusing on our application of precise regulation of the human microbiome, we have actively developed relevant raw materials and formulation technologies. We have successfully rolled out a new women's personal care product, FeatherPure, recently and we will introduce more consumer products that target one's intestinal health to address the demand from health conscious consumers using our proprietary human microbiome technologies.

Richard Hu

[Speaking Chinese].

Bowen Bai

For the coming fiscal year of 2022 we will keep seeking the opportunity to carry out research and development on human microbiology, the sales of raw material, product manufacturing and other business in a global perspective, especially in the United States. In terms of research and development, we will keep developing our technologies in raw materials and proprietary formula combinations in human microbiome. Moreover, we are also hoping to complete one to two acquisitions at the right time this year, which is a rational use of our resources and capital as a public traded company and will also provide an opportunity to promote strengthening of the company's advantages and leapfrog development

Richard Hu

[Speaking Chinese].

Bowen

In 2022, the company is expected to achieve organic growth of 25% to 35%. If mergers and acquisitions are included, we could achieve greater growth.

Richard Hu

[Speaking Chinese].

Bowen Bai

With that, I will now turn the call over to Maggie and she will walk you through our financials.

Maggie Zhang

Thank you, Mr. Hu. I'm Maggie, and I will review the 2021 annual financials with you and our CFO, Mr. Li, will be available for the Q&A session if you have any questions regarding the financials. Before I reveal the numbers, let me remind you that all the figures that I discuss here are for this reporting period. The year ended September 30, 2021, unless I state it otherwise. Additionally, any year over year comparison is to the September 30 of 2020. So let's go over our 2021 year ended financials.

I'll begin with an overview of our consolidated results on slide 11. In the year ended 2021 Bon generated approximately 25.49 million in revenue, up 39.9% year over year. These increases were primarily driven by the increase in average selling price and the sales volume of both fragrance compounds and health supplements. The selling price of fragrance compounds increased by 39.2%, as we raised our selling price in response to the rising raw material costs and the market change as affected by COVID-19, and general inflation. The sales volume of fragrance compound also increased by 7.9%, from about 42,000 kilograms to about 45,000 kilograms as a result of our marketing and promotion efforts.

We shifted our sales strategy by directing more marketing effort to promote our products to large domestic enterprise clients. The sales volume of health supplements increased by over 51% to 283,000 cases. In addition, the average selling price of health supplements also increased by 4.9% due to the above-mentioned COVID-19 and inflation issues. Bioactive ingredient sales volume decreased by 5.7% to about 121,000 kilograms, which is mainly due to the decreased demand of our stachyose products. And I will dive deeper into this on the next slide.

At the same time, our gross profit for the year 2021 was approximately 7.1 million, increased by 36.7%, which is mainly driven by the strong category growth from fragrance compounds and health supplements. Both sales volume and average selling price are moving in the right direction, partially offset by the normalized contribution from bioactive food ingredients. Government subsidies were received in the form of grant and recognized as other operating income totaling about 449,000 and 362,000 in the year ended September 30, 2021, and 2020, respectively. This is also an example of continuing support from government to high tech companies like Bon Natural Life. Net income in 2021 increased from 3.1 million to 4.6 million, increased by 48.8%. Diluted earnings per share was \$0.68 compared to \$0.58 for the same period in 2020.

In this slide, I will dive deeper into the financial performance of each our product category, beginning with fragrance compounds. Revenue generated from fragrance compounds increased by 61.7%, from about 7.8 million to 12.7 million. As I mentioned previously, the revenue growth of fragrance compound was primarily driven by the increase in sales volume, as well as the average order size and the average selling price of our product. Although there is a rise in the raw material cost due to the supply chain and pandemic challenge, with our advanced technology and our ability to secure such supply, we are able to increase our average selling price and maintain our profitability in fragrance compounds.

Next, our health supplements, specifically powdered drinks, saw year over year growth of 71.2% from

about 3.9 million to 6.6 million. This is driven by the increase in powdered drink sales volume when the number of customer increased to 132. Compared to fiscal year 2020, the sales volume increased from about 186,000 cases to 283,000 cases. As you can see, that there is a decrease in the revenue from bioactive ingredients due to the outbreak of COVID-19 in 2020. Stachyose, an important ingredient used in our probiotic supplements to boost immunity, has been designated by the local government as an important supplement material for COVID-19 control package, which results in increased demand in customer orders for the first half of 2020.

As COVID-19 has been relatively under control in China, the market demand for such products has decreased and returned to normal. In addition, due to our improved research and development, we have improved the manufacturing process of extracting ingredients out of raw materials. This greatly decreased our manufacturing costs and hence the average selling price, which put us in a more competitive position than our competitors. Overall, we are very pleased with the continued strong performance of each of our product categories.

Now turn to this slide. I would like to discuss the regional breakdown of our sales and dynamic that influenced our result. Despite the global supply chain challenge, in 2021 revenue generated from domestic China was about 28.7 million, achieving a 53.3 increase in sales, which represents about 93% of our total revenue for 2021. Overseas sales were approximately 1.8 million, representing about 8% of the total revenue. Due to COVID-19 global logistics have been disrupted. So we shift our sales strategy by directing more marketing efforts to promote products to large domestic clients, rather than export sales to overseas clients. Once COVID-19 is behind us, our product will eventually be exported and used by our foreign customers. We believe that with the commissioning of human plant, we will be able to accelerate the revenue growth in both domestic and international sectors to meet the increasing demand for our customers.

And next, in this slide I will go over the key subsequent events after the fiscal year 2021. On November 11, 2021, the company announced that it has removed its variable interest entity structure and has become the sole shareholder of its operating entity in China. Our shareholder now owns the equity interest of the operating subsidiary instead of the interest through the contract agreement. This demonstrates our commitment to our corporate governance and enhancing shareholder value. On January 12, 2022, the company received the initial order for its stachyose and apple extract based personal care products from Chongqing Fudoudou Technology to penetrate consumer market.

And next, I will turn the call back to Mr. Hu for any closing remarks before we open the line for Q&A. [Speaking Chinese].

Richard Hu

[Speaking Chinese].

Maggie Zhang

Thank you, everyone for joining us today. Before I wrap up today's presentation, I would like to first recognize our employees for their tireless effort. And thank you, our loyal customers, for the trust in us. We are confident that our R&D capability, business model and strategy could enable us to gain more market share and maintain our growth momentum.

With that, before we open the call to your questions, I would like to know that for any question that's directed to the management in China, we will translate both your questions and their answers. If you want to ask your question in Chinese, please also ask it in English for the benefit of our listeners. Please also know that we will only be able to respond to questions about our financial and operating result.

With that we'll now open the call to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Yes, thank you. We will now begin with the question and answer session. To ask a question you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. For those of the webcast, you may submit questions by typing the Submit a Question box on your screen. At this moment, we will pause momentarily to assemble the roster.

And the first question comes from Brian Hartzband, an investor.

Brian Hartzband

Hi there. I actually have a couple questions. But first of all, congrats on the great annual results and very impressive to see 40% growth on both the top and bottom lines. So my first question is, I noticed that your first end customer product, FeatherPure, was introduced to the market late last year. Can you give us some visibility on this and other of your proprietary products coming in 2022/2023?

Taylor Zhang

Thank you, Brian. Let me translate your question to the management so they can answer your question. [Speaking Chinese].

Richard Hu

[Speaking Chinese].

Taylor Zhang

Okay, okay. All right, Brian. So the answer coming from Mr. Richard Hu, the company Chairman and CEO. So the company believes its FeatherPure products will have the potential to achieve revenue, approximately \$8 million in the next two years. So obviously, this is female hygiene care products. It has all the benefits, such as chemical free, natural-based, etc. So in terms of breakdown between 2022 and the year following, the company believe this year they can expect about \$3.5 million to \$4 million revenue, the balance will be achieved—expect to be achieved in 2023.

Brian Hartzband

Okay.

Taylor Zhang

Brian, do you have other questions?

Brian Hartzband

Yes. Yes, I do. Thank you very much, Chairman and thank you. Okay, so can you confirm or update on your Yumen facility construction? And are you guys still on track to commence production in September this year?

Taylor Zhang

[Speaking Chinese].

Richard Hu

[Speaking Chinese].

Taylor Zhang

Yes, Brian. This also come from the Chairman, Mr. Richard Hu. So the company is on track, on schedule to commence production in September and they believe the construction will be completed sometime during this year.

Brian Hartzband

Okay. Okay. Thank you. Thank you for that. And then just two more. Okay, so I understand that international sales was limited due to the global pandemic, as we all know and understand but what is the management team going to do to prepare for the post-COVID world when it comes to international expansion?

Taylor Zhang

[Speaking Chinese].

Richard Hu

[Speaking Chinese].

Taylor Zhang

Okay. So, Brian, the company's international business for fiscal 2021 was reported \$1.8 million approximately, which was down 35% year over year. So, those were direct imports by the company. So just to give you some additional color, the company also have sales from indirect exports, meaning the company sell to importer or subsidiary of international company. And so if you look at both categories, the company did about [indiscernible]. So that was, in the management opinion pretty good results, given the backdrop of pandemic and supply chain disruption.

Brian Hartzband

Okay, thank you. Thank you very much.

Richard Hu

[Speaking Chinese].

Taylor Zhang

[Speaking Chinese]. You're welcome, Brian. Any further questions?

Brian Hartzband

Yes. The last question I have is, do they have any M&A plans on the horizon?

Taylor Zhang

[Speaking Chinese].

Richard Hu

[Speaking Chinese].

Taylor Zhang

Okay, so that is the question. The company listed last year. So there's, I think a very unique situation of the company. So over the 15 years of its operating history, the company earned its name and also reputation. Secondly, after the publicity of Nasdaq listing. So since then, the company has received quite a few inquiries from a company who expressed interest to either partner with a company or doing some potential M&A transaction. So the company is very open to that because they're going to be for the company, the fast track in terms of growth. So right now, there's no material development, but it's still ongoing and also open dialogue.

Brian Hartzband

Okay. All right. Fair enough. Thank you. Thank you very much.

Taylor Zhang

Thank you.

Brian Hartzband

Thank you.

Operator

Thank you. And once again, to ask a question on the phone, please press star then one.

Taylor Zhang

Okay, in case we saw we have a couple questions from the webcast. So I will translate those questions to the management and we can address those while we're waiting for whoever is dialing in. Hold on. So we got a question online, is "Why should we buy BON stock?" [Speaking Chinese].

Richard Hu

[Speaking Chinese].

Taylor Zhang

So, this is a very important question also to ourselves. So we as a Nasdaq listed company and also fast growing in our industry, we're actually growing faster than the industry average. So the market itself is large and addressable. So, the market size in terms of revenue is over 1 trillion RMB, which is approximately \$160 billion in China alone, and in the next few years it's expected to grow over \$300 billion.

Richard Hu

[Speaking Chinese].

Taylor Zhang

In terms of technology and the products we're offering, we're very proud of both. So the products we have developed over years, they are in a niche market and we are very focused on very few products and develop from those platform technology we have developed over the years. Our proprietary technology is also recognized by the industry.

Richard Hu

[Speaking Chinese].

Taylor Zhang

And my third point on the reason for investing in our company, since our inception about 15 years ago we are committed to corporate governance. In 2015, the company was listed on the NEEK Exchange in China, so even before came to the US, before our Nasdaq listing, we have some foundation in terms of managing a public company and also corporate governance.

Richard Hu

[Speaking Chinese].

Taylor Zhang

Lastly, it's very important, in our opinion and also a factual matter, in our industry, if you look at either Ingredion or IFF, they're trading at a price to earnings multiple of approximately 40 times. And if you're

using our earnings per share in fiscal 2021, which is \$0.68 per share, you know, we believe our stock should be at least on par with those company, our peers and should be at least \$20. So in our opinion, our company stock is undervalued. And on the flip side, that also presents a good entry point and attractive return potential to our investors.

Richard Hu
[Speaking Chinese].

Taylor Zhang
[Speaking Chinese].

Richard Hu
[Speaking Chinese].

Taylor Zhang
So the next question is, why the company is registered on Cayman Islands? So the answer was coming from the Chairman and CEO, Mr. Richard Hu. The registration in Cayman Islands is a very common and typical structure for overseas company not only from China, but all over the world because it's tax neutrality in the Cayman Islands. So both for the company's benefit and also for investor benefit. And that's the major consideration by the company it's not the company doing anything creative.

Richard Hu
[Speaking Chinese].

Taylor Zhang
Okay. Operator, back to you. Do we have any further question in the queue?

Operator
No. There are currently no questions on the phone.

Taylor Zhang
[Speaking Chinese].

Richard Hu
[Speaking Chinese].

CONCLUSION

Maggie Zhang
And that concludes our Q&A session. On behalf of for Bon Natural Life, we want to thank you for your interest and participation in this call. If you would like to speak with us further, please contact either Maggie in the US or Sophie in China. Their contact information is listed at the bottom of the press release.

And thank you. Operator, back to you.

Operator
Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.