

Bon Natural Life
EDITED TRANSCRIPT

H1 2021 Earnings

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CORPORATE PARTICIPANTS

Maggie Zhang – *Investor Relations*

Richard Hu – *Chairman and CEO*

Zhenchao Li – *Chief Financial Officer*

Siyuan Pei – *Investor Relations*

Taylor Zhang – *Translator*

PRESENTATION

Operator

Good day, and welcome to the Bon Natural Life 2021 Half-Year financials conference call. All participants will be in a 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 then 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, this event is being recorded.

I would now like to turn the conference over to Maggie Zhang, Investor Relations of the company. Please go ahead.

Maggie Zhang

Thank you, operator. Thank you all for joining us for Bon's 2021 half-year financial result conference call. At 8:00 a.m. today, Bon issued a press release announcing the 2021 half-year financial result. A copy of the release can be found on the company's IR website at ir.bnllus.com. Please note that this call is being recorded live, and 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 our 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 be caused actual result to differ materially from our forward-looking statements, please refer to our cautionary statements and risk factors 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; and COO, Ms. Yingchun Xue. I will now turn the call over to our Chairman and CEO. Mr. Hu will be speaking in Chinese, and my colleague Siyan Pei will translate his opening remarks into English.

Mr. Hu, please go ahead. [Speaking foreign language].

Richard Hu

[Speaking foreign language].

Siyan Pei

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 first half of 2021. Maggie will then provide a detailed overview of our 2021 half-year financials, highlighting the financial performance of each product category.

Richard Hu

[Speaking foreign language.]

Siyan Pei

Now turn to slide 4. For those who are new to our story I would like to briefly introduce our company. Bon Natural Life is a bio-ingredient solution provider in the natural, health and personal care industry. We source raw materials from farms and then process and the break down natural plants into natural chemicals that can be used commercially for the above-mentioned applications.

We have three product categories: fragrance compounds, health supplements, and the bioactive food ingredients. Fragrance compounds are used in fragrance 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 foreign language].

Siyan Pei

In slide 5, our customers include very well-known names in Asia for example, Tong Ren Tang, LiangMianZhen, Jin Brand and Angel Yest. And our clients also include some of the biggest household names in US and in Europe, like International Flavors & Fragrance, Mars Wrigley, Symrise , Fridal, and the ACS International.

Richard Hu

[Speaking foreign language].

Siyan Pei

Now turn to slide 6. I would like to briefly discuss our manufacturing facilities. We now have two facilities outside the Xi'an, China. Both are located within 90 minutes from the company's headquarters. We recently broke ground on our third production facility in Yumen. The construction is now underway. And it is expected to be completed at June and in production on the September 2022.

The new construction is expected to increase our production capacity of fragrance compounds and the bioactive food ingredients by 200%, representing 150% annualized growth potential in revenue.

Richard Hu

[Speaking foreign language].

Siyan Pei

In slide 8, I will provide an update on our growth strategies through this first half of 2021. After the IPO, we have recruited new sales professionals and now we have 16 sales professionals. In the near future, we plan to expand our sales professionals to 36 individuals. Like I mentioned previously, we have broken ground on our third production facility in Yumen. Once commenced, it is expected to increase our production capacities significantly to meet the increasing demand from both our domestic and international clients.

In addition, we are actively outsourcing to meet the increased demand as well. Secondly, stachyose probiotic powder has been in testing stage in Sinopec station. In term of development of the new proprietary product, we have developed seven new products, including our proprietary branded and the new natural plant-based products in various stages.

Last, but not least, I will continue to leverage our relationships and the resources to expand new business through strategic cooperation and I remain optimistic about acquisition opportunity. I'm very encouraged by continued progress and excited about the path forward for Bon Natural Life.

Richard Hu

[Speaking foreign language].

Siyan Pei

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

Maggie Zhang

Thank you, Mr. Hu and Siyuan. I'm Maggie, and I will review the 2021 half-year financials with you. Our CFO, Mr. Li, will be available for the Q&A session, if you have any questions regarding the financials.

Before I review the numbers, let me remind you that all the figures I discuss are for date reporting period, the first half of 2021, unless I state otherwise. Additionally, any year-over-year comparison is to March 31, 2020. So let's go over our 2021 half-year financial results.

I will begin with an overview of our consolidated result on slide 11. In the first half of 2021, Bon generated approximately \$11.7 million in revenue, up 63.6% year-over-year. This increase were primarily driven by the increase in sales volume of fragrance compounds and health supplements. The sales volume of fragrance compounds increased by 90%, to about 27,000 kilograms. The sales volume of health supplements increased by over 300% to about 208,000 cases. Bioactive ingredients sales volumes decreased, mainly due to the extraordinary demand of Stachyose products during the peak of COVID-19 pandemic last year. In other words, we expect bioactive food ingredient products to return to stable and normal growth trajectories going forward.

At the same time, our gross profit for the first half of 2021 was approximately \$3.4 million, increased by 32.2% for the six months ended March 31, 2021, driven by strong category growth from fragrance compound and health supplements. Both sales volume and average selling price are moving in the right direction, partially offset by the normalized contribution from bioactive ingredients.

Government subsidies received in the form of grants and recognized as other operating income total about \$446,000 and it was approximately \$332,000 last year, respectively. This is an indicator of continuing support from the local government to high-tech companies like Bon Natural Life.

Net income in the first half of 2021 increased from \$1.59 million to \$2.3 million, increased by 43.9%. Diluted earnings per share was \$0.40, compared to \$0.30 for the same period in 2020.

In the next slide, I will dive deeper into the financial performance of each of our categories, beginning with fragrance compounds. Revenue generated from fragrance compounds increased by 133%, from \$2.6 million to \$6 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 products.

Next, our health supplements, specifically powdered drink segment, for a year-over-year growth of over 300%, from \$1.1 million to \$4.7 million. This is driven by the increase in powder drink sales volume, when the number of customers increased to 86 customers. The average customer order size of fragrance compounds increased by 44% as well.

As you can see that there is a decrease in the revenue from bioactive ingredients, due to the outbreak of COVID-19. 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 the COVID-19 control package, which resulted in an increased demand. And the customer orders for the first half of 2020 increased.

As COVID-19 has been 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 material. This greatly decreased our manufacturing cost 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 our product categories.

Now turning to slide 13, I would like to discuss the regional breakdown of our sales and dynamics that influence our results, despite the global challenge.

In the first half of 2021, revenues generated from China was about \$10.7 million, achieving a 68.7% increase in sales, which represents approximately 92% of our total revenue for the first half of 2021. Our overseas sales were approximately \$1 million, up 22.3% year-over-year, representing about 8% of the total revenue. Due to COVID-19, global logistics has been disrupted, so we shifted our sales strategy by directing more marketing efforts to promote our product to larger domestic enterprise customers, rather than export sales to overseas customers.

We believe that with the construction of Hunan plan, we will be able to accelerate the revenue growth in both the domestic and international sectors to meet the increasing demand from our customers.

Next slide, in slide 14 I will go over the key subsequent events after the company's IPO. In June Bon has received certificate of land use right for the third production facility in Yumen. At the end of July, the company officially broke ground on the facility in Yumen and the construction is now underway. And it is expected to add approximately 150% top line growth after the facility is up and running next year.

At the same time, Bon was invited to WPE-WHPE 2022, the largest natural health industry exhibition in China. And Chairman Hu was one of the key speakers in the exhibition.

And now, I will turn the call back to Mr. Hu for closing remarks before we open the line for Q&A.

Richard Hu

Thank you, Maggie. [Speaking foreign language].

Maggie Zhang

And 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 efforts, and thank our loyal customers for their trust in us. We are confident that our technology, business model, and strategy will 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 questions directed to the management in China, we will translate both your questions and their answers, if you want to ask your questions in Chinese, please also ask it in English for the benefit of our listeners. Please also note that we will be only able to respond to questions about our financial and operating results.

With that, we're now open to calls for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin 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. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. For those on the webcast, you may submit questions by typing in the Submit a Question box on your screen. At this time, we will pause momentarily to assemble our roster.

And the first question today comes from Brian Hartzband with H4H. Please go ahead.

Brian Hartzband

Hi. Okay, so my first question is—well first of all, congrats on the great half-year results. So, can you elaborate your expansion plan, as well as what kind of growth investors can anticipate? And also, what are the risks associated with your plan?

Taylor Zhang

Okay, thank you, Brian. Let me translate your question. [Speaking foreign language].

Richard Hu

[Speaking foreign language].

Taylor Zhang

[Speaking foreign language].

Zhenchao Li

[Speaking foreign language].

Richard Hu

[Speaking foreign language].

Taylor Zhang

Hi, Brian. Your answer come from both the CEO and CFO. Sorry for the lengthy discussion, because I do want you to have your question addressed fully. So, the company does have a very robust expansion plan. To break it down, there's two facility currently being construction. One is their existing facility—that's facility number two as shown in the slides—in Tongchuan facility. That facility is designated to produce proprietary branding in use of products.

So, you can imagine the products coming from this Tongchuan facility will be higher priced, higher value-added, and those of higher margin. To give you a sense, the scale the company is currently building, the company is looking to pretty much triple their capacity in the next three years. In terms of investments, the company is earmarked approximately \$14.5 million. Part of that has been already invested.

So, all in, there will be generate approximately \$30 million annualized run rate once it's fully deployed.

Secondly, as the company has announced, Yumen facility. That facility will be producing their legacy ingredient products, including fragrance compounds, and also the bioactive ingredients. In terms of the size, the company is essentially going to be increased by 200%.

In terms of the output in dollar term once fully operational, the company looks to get approximately \$48 million from their Tongchuan facility. So, as the company has announced previously, even the facility they broke ground last month and they're expecting the plant to be completed in June next year and ramping up for about three months' period. And then we'll be starting producing in September 2022.

I hope that that answer question number one. If you have any follow-up on question number one, please go ahead. Otherwise, we're here for your second question.

Brian Hartzband

Yes. No, thank you for going into detail in that. Very helpful. So my last question is, I saw that the

government subsidies being both this half-year and the prior year, I understand that local government supports good companies in China. So going forward, is that something we can expect to be reoccurring? Or is it more of a one-off situation?

Taylor Zhang

Thank you for the question. Let me translate to the management.

Brian Hartzband

Okay.

Taylor Zhang

[Speaking foreign language].

Richard Hu

[Speaking foreign language].

Taylor Zhang

Hi, Brian. Yes, you are correct. So, first of all, our operating entity in China is one of the high-tech enterprises. For that, we are enjoying 15% income tax rates compared to the normal tax rates in China. So, we just received the renewed approval from the government, which means the company will continue to have such preferential tax policy for the next few years.

Secondly, we do expect we will continue seeking and also applying for different forms of government support subsidy to help the company and also return to the community, as well as maximizing our shareholder values.

Brian Hartzband

Okay. Okay, thank you.

Siyan Pei

Alright. Thank you.

Operator

As a reminder, if you have a question, please press star then one to be joined into the queue. For those using the webcast, you may submit questions by typing in the Submit a Question box on your screen.

Being as there are no more audio questions, I'd like to turn it over to Taylor Zhang for any questions from the webcast.

Taylor Zhang

Hi. Firstly, we have one question from the webcast. [Speaking foreign language].

So, the first question coming from the webcast is regarding the company's gross margin. So, the margin has been declined a little bit in the first half of 2021 fiscal year. So, the question basically, for the management, what does the management expect this margin will be in the future?

Zhenchao Li

[Speaking foreign language].

Taylor Zhang

The answer from the CFO, Mr. Li, is the margin decline in the first half of fiscal 2021 was mainly due to

the following factors. One is a product mix from higher margin products towards slightly lower margin products. For example, fragrance compounds, which has gross margin approximately 20%. So, the contribution from that particular product category increased from 35.8% to 50.9% year-over-year. So, that's one contributing factor.

Secondly, the raw material price has been increased also in the reporting period.

And lastly is the bioactive ingredient. The gross margin has normalized generally for this half year compared to the peak of pandemic last year.

So, looking forward the company expects gross margin for the whole year probably somewhere around 30%, so that means some improvement over the first half, mainly because the company will continue their product mix shift towards high-margin, high value-added products. And that management also expect supply chain disruption will be alleviated in the remaining of this year. So, with that, the company also think the margin will be stabilized to a more normal level.

We have another question from the webcast. [Speaking foreign language].

So, another question from the webcast is regarding the company's capital market or investor communication. What type of initiative or efforts, resources the company will invest to communicate with investors in the US?

Richard Hu

[Speaking foreign language].

Taylor Zhang

Okay. The answer come from the Chairman/CEO, Mr. Richard Hu. So, first of all, we think our company is a little bit different from many China-based company in that our position was an international company, as prior to listing in the US, we have pretty significant exposure in international trade and also export business, supplying many well-known company, including household names in the US and Europe.

So in that sense, we tend to think ourselves as an international company. And secondly, we are actively recruiting more bilingual talents in different function, which will help us in terms of communication and also understanding the needs of capital markets and how to run a successful public company.

And number three is through the listing process, we have a very productive and friendly corporation with our partners in the US for the past two or more years. And we continue such relationship and we believe with all the help from our partners we will also be able to better manage communication with investor.

CONCLUSION

Operator

This concludes our question and answer session. I would like to turn the conference back over to Maggie for any closing remarks.

Maggie Zhang

On behalf of Bon Natural Life, we want to thank you for your interest and participants in this call. If you would like to speak further with us, please call either Maggie in US or Sophie in China. The contact information is listed at the end of the press release. Thank you.

Operator

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