

Bon Natural Life Limited
H1 2022 Earnings
August 1, 2022 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Richard Hu - *Chairman and Chief Executive Officer*

Zhenchao Li - *Chief Financial Officer*

Yingchun Xue – *Chief Operating Officer*

Wenjuan Chen – *Chief Marketing Officer*

Sophie Zhang – *Investor Relations*

Bowen Bai – *Translator*

Taylor Zhang - *Translator*

PRESENTATION

Operator

Good day and welcome to the H1 2022 Bon Natural Life Limited Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note, this event is being recorded.

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

Sophie Zhang

Thank you, operator. Thank you all for joining us for Bon's 2022 half year financial results conference call. At 8 a.m. today, Bon issued a press release announcing the 2022 half year financial results. A copy of the release can be found on sec.gov.

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 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 actual results to differ materially from our forward-looking statements, please refer to our cautionary statements 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, who will be speaking in Chinese, as a colleague, BBowen Bai will translate his opening remarks into English. Mr. Hu, please go ahead. [Chinese].

Richard Hu

[Chinese].

Bowen Bai

Thank you, Sophie. And thank you for joining us today. I will begin today's call by providing an overview of our business performance during the first half of 2022. Sophie will then provide a detailed overview of our 2022 half year financials, highlighting the financial performance of each product category.

Richard Hu

[Chinese].

Bowen Bai

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 source raw materials from farms and then process and break down the natural plants into natural chemicals that can be used commercially for the abovementioned applications.

We have three product categories: fragrance compounds, health supplements and bioactive food ingredients. Fragrance compounds are used in fragrances that go into consumer fragrance, oral care, detergents and et cetera. Health supplements are powdery drinks, prebiotics, probiotics and et cetera. Bioactive food ingredients are used in food preservatives and health supplements as well. Our

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

Richard Hu

[Chinese].

Bowen Bai

Now turning to slide 7, I would like to briefly discuss our manufacturing facilities and capacity. We currently have two facilities outside of Xi'an, China; both are located within 90 minutes from the company headquarter.

Regarding our third production facility, Yumen Plant, the building construction is now completed and it is expected to be up and running around September this year to deliver near term production. The first phase of Yumen Plant is to increase the production capacity for fragrance compounds and bioactive food ingredients to meet the existing market and customer demand. The second phase of the expansion is for the company's new proprietary products, including natural prebiotics and functional personal care products. The new construction is expected to increase our production capacity of fragrance compounds and bioactive food ingredients by 200%, representing 150% annualized growth potential in revenue.

Richard Hu

[Chinese].

Bowen Bai

In this slide, I would like to introduce the progress of our proprietary product development. Thanks to the tremendous and decade-long efforts of our R&D team, we are excited and proud to be able to add proprietary products that are new and innovative to our nutraceutical line on a solid foundation above our legacy compound business.

First of all, we have received the initial purchase order for our first female personal care product, FeatherPure, which is an all-natural product with no antibiotics, fragrance, harmful chemical additives, or harmful side effects. The product can regulate microbial balance of female reproductive system also with anti-bacterial and anti-inflammatory function. We expect FeatherPure to bring approximately \$3 million in revenue in the next two years.

Secondly, we would like to introduce our new broccoli-based probiotic powdery drink as our first proprietary products of the cruciferous vegetable based health supplement series. It will provide an additional growth driver for us. According to the research, approximately 56% of the Chinese population were infected by H. pylori bacteria that can cause digestive disease. Our new probiotic powdery drink could potentially inhibit the proliferation of H. pylori and regulate the microbial balance of one's digestive system.

In addition to the powdery drink, we are also expecting to develop other consumer products in our cruciferous vegetable based series. We plan to introduce immune system booster in soft gel capsules, digestive health booster in soft gel capsules, weight loss products, sleep aid products for mid-age and elderly. We look forward to bringing our products to the market and are optimistic about the market opportunities and revenue potential from our proprietary consumer products.

Richard Hu
[Chinese].

Bowen Bai

In slide 9, I will provide an overview of our growth strategies in the next six months to one year. First, the company will continue to look for opportunities to expand our business operations and local raw materials on a global level, especially in the United States, Japan, and Europe.

Next, we are expecting putting more effort in product line expansion as well. In the following year, the company will introduce two to three new raw material categories in order to expand our sales in health market and become more competitive.

In addition to that, the company will also continue to focus on the regulation technology of human microorganisms and develop new products targeting on the digestive system health, cardiovascular and cerebrovascular health, metabolic health and immune health. At present, some products have been tested and will be launched soon, including products helping gastroenteritis, sleeping and memory uses. In the end, the company is expecting to carry out two to three mergers and acquisitions in the following years as well, and these acquisitions will improve our capabilities in bio-manufacturing, technology and sales network expansion.

Richard Hu
[Chinese].

Bowen Bai

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

Sophie Zhang

Thank you, Mr. Hu. I'm Sophie and I will review the 2022 half year financials with you. And our CFO, Mr. Li, will be available for the Q&A session if you have questions regarding the financials.

Before I reveal the numbers, let me remind you that all figures discussed are for this reporting period, the first half of 2022, unless I state otherwise. Additionally, any year-over-year comparison is to March 31st of 2021. So let's go over our 2022 half year financial results.

I will begin with an overview of our consolidated results on slide 11. In the first half of 2022, Bon carried approximately \$13.7 million in revenue, about 17% over last year. These increases were primarily driven by the increase in the average selling price of the three product categories. The selling price of fragrance compounds, powder drinks and bioactive food ingredients increased by 64.1%, 11.2% and 79.2%, as we raised our selling price in response to the rising raw material costs and market change as affected by the COVID-19 and the shortage of the principal raw material due to abnormal weather.

The sales volume of bioactive food ingredients also increased by 47.5%, although the selling price was raised. The sales volume increase from about 33,000 kilograms to about 49,000 kilograms due to strong customer demand and our sales efforts to promote sales of milk thistle extract, with benefit to protect liver and lower blood sugar. In addition, the sales volume of health supplements decreased by 37.5% to 130,000 cases, mainly due to the shortage of our raw material, which suffered from abnormal wet weather in the second half of 2021, along with disruption of logistics caused by COVID-19.

At the same time, our gross profit for the first half of 2022 was approximately \$4 million, increased by 19.6%, which was mainly driven by strong category growth from fragrance compounds and bioactive food ingredients. Both sales volume and average selling price are moving in the right direction, partially

offset by the supply chain package contribution from health supplements.

Government subsidies received in the form of a grant and recognized as other operating income totaled about \$542,000 and \$447,000 in the first half of 2022 and 2021, respectively. This is an example of continuing support from government to high tech companies like Bon Natural Life.

Net income in the first half of 2022 increased from \$2.3 million to \$2.5 million, increased by 10.2%. Diluted earnings per share was \$0.30 compared to the \$0.40 for the same period in 2021.

In this slide, I will dive deeper into the financial performance of each of our product categories. Beginning with fragrance compounds, revenue generated from fragrance compounds increased by 24.9%, from \$6 million to \$7.4 million. As I mentioned previously, the revenue growth of fragrance compounds were primarily driven by the average order size and the average selling price of our product. Although there's a rise in the raw material costs due to supply chain and pandemic challenges, 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. Powder drink segment decreased by 28.5% from \$4.7 million to \$3.3 million. Decrease from health supplements was mainly due to the decrease in sales volume, which was caused by the raw material shortage in the second half of 2021 and the logistics disruptions caused by COVID-19.

Revenues from bioactive ingredients increased 171.8% compared to the same period of 2021, from \$1.1 million to \$2.9 million. As we mentioned about, the increase in revenues from bioactive ingredients was primarily due to volume growth and higher average selling price.

Overall, the increase in total sales revenue from unit price increases in fragrance compounds and bioactive ingredients, as well as volume increase impact in ingredients offset the negative impact of supply chain shortage in dietary supplements. So, we are pleased with the overall financial performance of our product categories.

Now turning to the slide 13. I would like to discuss the regional breakdown of our sales and the dynamic that influenced our results. Despite the global supply chain challenges in 2021, revenue generated from domestic China was \$13.1 million, achieving a 22.4% increase in sales, which represents approximately 95.7% of our total revenue for the first half of 2022.

Overseas sales was approximately \$600,000, representing about 4.3% of the total revenue. Due to the COVID-19, global logistics have been disrupted. So we shift our sales strategy by directing more marketing efforts to promote our products to large domestic enterprise customers rather than export sales to overseas customers. We believe that with the commissioning of Yumen Plant, we will be able to accelerate the revenue growth in both domestic and international sectors to meet the increasing demand from our customers.

In slide 14, I will go over to the key subsequent events after half year 2022. In May 2022, our third production site, Yumen Plant, had completed the building structure of the facility as scheduled and forecasted to commence around September 2022. In June 2022, the company launched the new cruciferous vegetable-based probiotic powder drink. And also in June 2022, the company appointed Jeffrey Guzy as the new independent director to its Board of Directors and as Chair of the Audit Committee.

I will now turn the call over to Mr. Hu for closing remarks and then we will start the Q&A session.
[Chinese].

Richard Hu
[Chinese].

Sophie Zhang

Thank you, Sophie. And thanks again, 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 R&D capability, 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 our questions, I would like to know that for any questions directed to the management in China, we will translate both their questions and their answers. If you want to ask your questions in Chinese, please also ask it in English for the benefit of the listeners. Please also note that we will only be able to respond to the questions about our financial and operating results.

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

QUESTIONS AND ANSWERS

Operator

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 are 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. At this time we will pause momentarily to assemble our roster.

Our first question comes from Brian Hartzband, a private investor. Please go ahead with your question.

Brian Hartzband

Hi. Can you hear me?

Taylor Zhang

Yes, we can hear you.

Brian Hartzband

Okay. Thanks. I just have a few questions here. First, congrats on another good quarter. A few questions. My first is that I noticed the average selling prices of your products are trending up, which is a good sign. Can you please elaborate what the driver is behind it? And also, can we expect the same trend going forward for the second half of the year?

Taylor Zhang

Thank you, Brian. Let me translate your question. [Chinese].

Richard Hu
[Chinese].

Taylor Zhang

Thank you, Mr. Hu. Here's the answer coming from the Chairman and CEO, Mr. Richard Hu. There's two drivers behind our price improvement. Number one is, with the backdrop of global inflation our

business, there's no exception. So, the price has been going up.

Secondly, the supply chain disruption also further pushed the price up to our raw material and also our selling product. So, we do believe we have demonstrated ourselves that we were able to pass through the price increase to our customer effectively. For the remainder of this year, we feel confident that we will maintain such price increases and there's also possibly additional room to improve our pricing power.

Brian Hartzband

Okay. Thank you. What's your guidance for the fiscal year 2022? That's my next question, and then I have one more after.

Taylor Zhang

Okay. Let me translate that. [Chinese].

Zhenchao Li

[Chinese].

Taylor Zhang

The answer coming from Zhenchao Li, the company's CFO. So, for the first fiscal half our revenue and net income both grew approximately 17%. We feel comfortable that such growth will continue for the remainder of the second half. Obviously, we're not growing as fast as we used to due to the impact of COVID-19 and also supply chain disruption. But we're still very optimistic we're going to still be growing at a decent growth rate.

Brian Hartzband

Okay. Thank you. And then the last question is, will your third plant be up and running on schedule, and what can investors expect in terms of revenue and earnings contribution from that plant?

Taylor Zhang

Okay. Thank you, Brian. Let me translate your question. [Chinese].

Richard Hu

[Chinese].

Taylor Zhang

The answer is coming from the company Chairman and CEO, Mr. Richard Hu. Our third production facility in Yumen is scheduled to be up and running and ramping up in September, as we planned. The overall contribution in terms of production capacity and revenues are 200% and 150%, respectively. So, the plant will be coming in production in two stages, pretty much one year each. So year one we expect a 100% increase to our production capacity and also 75% in revenue contribution. In year two, we can expect similarly 100% production capacity incremental and also 70% additional contribution to our revenues.

Brian Hartzband

Okay. Thank you very much.

Taylor Zhang

Thank you.

CONCLUSION

Operator

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

Sophie Zhang

Thank you, operator. On behalf of Bon, 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 or Sophie. The contact information is listed at the end of the press release. Thank you. Operator?

Operator

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