

Bon Natural Life Ltd.

FY 2022 Earnings Call

February 10, 2023 at 9:00 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Richard Hu** - *Chairman and Chief Executive Officer*

**Zhenchao Li** - *Chief Financial Officer*

**Yingchun Xue** - *COO*

**Wenjuan Chen** - *CMO*

**Saini Liu** – *Investor Relations*

**Yiru Xu** – *Investor Relations*

**Taylor Zhang** - *Translator*

## **PRESENTATION**

### **Operator**

Good day and welcome to the Bon Natural Life Fiscal Year 2022 Limited 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 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 Yiru Xu, Investor Relations of the Company. Please go ahead.

### **Yiru Xu**

Thank you, operator. Thank you all for joining us for Bon's fiscal year 2022 fiscal results conference call. Bon has issued a press release announcing the fiscal year 2022 financial results earlier this morning. A copy of the release and the financial reports 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 will 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 may cause results that are materially from our forward-looking statements, please refer to our cautionary statement and risk factors stated in today's press release.

Joining me today on the call 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 and I will translate his opening remarks into English. Mr. Hu, please go ahead.

### **Richard Hu**

[Speaking Chinese]

### **Yiru Xu**

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 2022. Saini will then provide a detailed overview of our financial year 2022 financials highlighting the financial performance of each product category.

### **Richard Hu**

[Speaking Chinese]

**Yiru Xu**

Now turn to slide 6, 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, then process and break down the natural plants into natural chemicals that can be used commercially for their 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 etcetera. Health supplements are powder drinks, prebiotics, probiotics and etcetera. Bio-additive food ingredients are used in food preservatives and health supplements as well.

Our customers include well-known names in Asia including Tong Ren Tang, Liangmianzhen, Jin Brand and Angel Yeast. Our clients also include some of the biggest names in U.S. and Europe, such as International Flavors & Fragrances, Mars, Symrise, Fridal and ACS International.

**Richard Hu**

[Speaking Chinese]

**Yiru Xu**

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

Regarding our third production facility, Yumen Plant, the building structure of the first phase facility has been completed as scheduled. The first phase construction work is estimated to be completed in May this year. For the first phase the Yumen Plant will increase the production capability of the fragrance compounds and bio-active food ingredients to meet the existing market and customer demand.

For the second phase of expansion, the production will be used for the company's new proprietary products including natural pre audit and functional personal care products. The new construction is expected to increase our production capability of fragrance compound and bio-additive food ingredients by 200%, representing a 150% annualized growth potential in revenue.

**Richard Hu**

[Speaking Chinese]

**Yiru Xu**

In this light, I would like to introduce the development progress of our proprietary products. Thanks to the tremendous and decade-long efforts of our R&D team, we are excited and proud to be able to add new and innovative health products to our nutraceutical line for our legacy compound business.

We have received the initial purchase order for our first female personal care product, FeatherPure. It is an all-natural product with no antibiotics, fragrance or harmful chemical additives without harmful side effects. The product can regulate microbial balance of female reproductive system and will provide 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 powder 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 research, about 56% of the Chinese population are infected by H. pylori, a bacteria that can cause digestive disease. Our new probiotic powdery drink could potentially inhibit the proliferation of H. pylori bacteria and regulate the microbial balance of digestive system.

In addition to the powder 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 management products and sleep aid products for the middle-aged and elderly. We look forward to bringing our products to the market and we are optimistic about the opportunity and revenue potential of our proprietary consumer products.

**Richard Hu**  
[Speaking Chinese]

### **Yiru Xu**

In slide 9, I will provide an overview of our growth strategies for the next six months to one year. First, we are expecting to put more effort in product line expansion. In the following year, the company will introduce two to three new raw material categories to expand our sales in-house market and gain more competitive advantages. In addition to that, the company will continue to focus on the regulation technology of human microorganisms and develop new products which are beneficial for digestive and immune health. At present, we have tested and will launch some products, including products helping gastroenteritis, sleeping and memory issue, liver health and immune health.

Next, in terms of capital markets and global operation, the company is expected to carry out two to three mergers and acquisitions in the following year. These acquisitions will improve our capabilities in bio manufacturing technology and sales networking expansion. And the company will continue to look for opportunity to expand our business operations and local raw material market on a global level, especially in United States, Japan, Europe and Southeast Asia with a new COVID situation.

The company's strategy is to establish localized business to rapidly expand the raw material business market. Meanwhile, the company will also actively engage in Global Health Solutions, especially in the U.S. and China.

**Richard Hu**  
[Speaking Chinese]

**Yiru Xu**

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

**Saini Liu**

Thank you, Mr. Hu. I'm Saini Liu and will review the 2022 earnings financials review 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 figures discussed are for this reporting period, the year ended September 30, 2022 unless I state otherwise. Additionally, any year-over-year comparison is to the September 30, 2021. So let's go over our 2022 yearended financials.

I'll begin with an overview of our consolidated results on slide 11. In the fiscal year of 2022, Bon generated approximately \$29.9 million in revenue at a 17.3% increase over last year. These increases were primarily driven by the increase in average selling price of all three product categories, as well as increase in sales volume of bioactive food ingredients.

The selling price of fragrance compounds, powder drinks and bioactive food ingredients increased by 27.5%, 7% and 17.4% 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.

Although the selling price was raised, the sales volume of bioactive food ingredients and health supplemental powder drinks increased by 27.3% and 1% for the fiscal year of 2022. The sales volume of bioactive food ingredients increased from 121,000 kilograms to about 154,000 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 fragrance compounds decreased by 15.1% mainly due to the shortage of raw material, which suffered abnormal wet weather in the second half of 2021, along with disruption of logistics caused by COVID-19.

At the same time, gross profit for the fiscal year of 2022 was approximately \$9.4 million, increased by 32.5% which is mainly driven by strong category growth from house supplemental powder drink and bioactive food ingredients. Both sales volume and average selling price are moving in the right direction, partially offset by the supply chain impact of the contribution from fragrance compound.

Government subsidies received in the form of a grant and recognized as other operating income totaled about \$1.3 million and \$450,000 in the fiscal year 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 fiscal year of 2022 increased from \$4.6 million to about \$6.2 million, increased by 35.4%. Diluted earnings per share was \$0.74 compared to the \$0.68 for the same period in 2021.

In this slide, I will dive deeper into the financial performance of each product category. Beginning with fragrance compounds, revenue generated from fragrance compounds increased by 7.6% from \$12.7 million to about \$13.7 million. As I mentioned previously, the revenue growth of fragrance compounds was 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, specifically powder drink segment increased by 7.4% and \$6.7 million to about \$7.1 million. The increase from health supplements was mainly due to volume growth and higher average selling price.

Revenues from bioactive ingredients increased 48.5% compared to the same period of 2021 from \$6.1 million to about \$9.1 million. As I mentioned before, 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 all three segments as well as volume increase in bioactive ingredients and health supplemental product drinks offset the negative impact of supply chain shortage in fragrance compound. Thus, 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 dynamics that influenced our results. Despite the global supply chain challenges in 2022, revenue generated from domestic China was \$28.8 million, achieving a 21.3% increase in sales, which represents approximately 96.1% of our total revenue for the fiscal year of 2022.

Overseas sales was approximately \$1.2 million representing about 3.9% of the total revenue. Due to COVID-19, global logistics have been disrupted. So we shifted 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.

Next, in slide 14, I will go over to the key subsequent events after fiscal year of 2022. On September 2022, the company had announced the delay of the commencement of Yumen Plant to May 2023. On January 2023, the company closed the previous offering with gross proceeds of \$2.2 million, mainly to fund its new Yumen plant and working capital for the new production facility.

And now I'll turn the call over to Mr. Hu for closing remarks. And then we'll start the Q&A session.

**Richard Hu**

[Speaking Chinese]

**Saini Liu**

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

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

With that will now open the call to 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. 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 our first question comes from Emma Lee, a private investor. Please go ahead.

**Emma Lee**

Hi, thanks for taking my questions. I think my first question is for the CFO, Richard. I saw your press release that the company has postponed the completion of the Yumen Plant. I just want to know do you expect it to complete in May this year or there might be another delay? And also how much production capability will the plant provide? Is there any existing demand for such increase or do you have [audio disruption] to meet the increased production? Thanks.

**Taylor Zhang**

Let me translate your question to the management. [Speaking Chinese]

**Richard Hu**

[Speaking Chinese]

**Taylor Zhang**

Your answer comes from the Chairman, CEO Mr. Richard Hu. So, the management does not foresee any further delay, especially after China is reopening after from the COVID-19

pandemic. So, they feel pretty confident that the company will be able to complete construction and also ramping up production around May this year.

In terms of production capacity, phase one is basically for fragrance compounds. Phase two is for sale in bioactive ingredient food products. So, phase one, as we mentioned, will come alive around May, which will bring additional capacity, approximately 50 metric tons of fragrance compounds products, which translates into about 200% in terms of production capacity increase. In terms of revenue, the company expects that will be increased by about 150%.

In terms of bioactive for the ingredients products, which will come online around May this year, the second phase, so that will bring additional 300 metric tons production capacity to the company.

**Emma Lee**

All right, okay, thanks. I think my second question is also for Richard CEO. I noticed that your company has overseas expansion plans, but can you explain why does the earnings and sales ratio of the overseas decline in 2022 compared to the 2021? Will you adjust the plan the future or you're going to keep this plan?

**Taylor Zhang**

[Speaking Chinese]

**Richard Hu**

[Speaking Chinese]

**Taylor Zhang**

So the answer comes from Richard Hu, company Chairman and CEO. In terms of the overseas sales decline significantly in fiscal year 2022, there's two reasons. One is in March, April and May of 2022, there was a significant congestion at the Port of Shanghai, which caused the company unable to deliver to the customer. So that's factor one.

The second factor is due to the supply chain disruption globally, there's a huge shortage of raw materials the company needed for fragrance compounds and also certain bioactive food ingredients materials. So those were primary reasons that the company's overseas sales declined dramatically in fiscal year 2022.

Looking forward, the company does not foresee any of these factors will play a role. So the company believes the company will resume its export business and the company does expect its overseas sales will pick up in fiscal year 2023.

**Emma Lee**

Okay, thanks. So one more question. My last question is for the CFO. I saw that the company's accounts receivable are over \$6 million and increased by \$1.3 million in 2022. Can you explain why the company has such a high level of accounts receivables? And do we have any better provisions on that?



**Taylor Zhang**

Let me translate. [Speaking Chinese]

**Zhenchao Li**

[Speaking Chinese]

**Taylor Zhang**

Okay. So, here's the answer from Mr. Li, the company's CFO. So, the payment terms the company gives the customer is universal, three months or 90 days. So throughout last year, the company has not experienced any during delinquent payments, so all the payments are according to the payment schedule.

As of now, in January this year, the company has pretty much collected all the balance that was reflected in the balance sheet as of September 30, 2022. So the company does not have any bad debt provision.

**Emma Lee**

Okay, okay. All right. Thanks. I think I don't have any further questions on that. Thank you.

**Taylor Zhang**

Sure. Thank you Emily.

**Operator**

Once again, if you would like to ask a question, please press star then one.

**CONCLUSION****Operator**

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

**Saini Liu**

Thank you, operator. On behalf of Bon, we want to thank you for your interest and participation in this call. If you'd like to speak with us further, please contact either Sophie or Maggie. Some contact information is listed at the end of the press release. Thank you. Operator, back to you.

**Operator**

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