11 October 2022

ASX Market Announcements Office
Australian Securities Exchange

**Baby Bunting Group Limited (ASX: BBN)**

# 2022 AGM address and trading update

- **As at 7 October 2022, year-to-date:**
  - **total sales growth of 12.0%, cycling 2.1% last year**
  - **total transaction growth of 15.2%**
  - **comparable store sales[1] growth of 7.6%, cycling negative 0.9% last year**
  - **online sales 19.6% of sales (28.6% pcp)**
- **Q1 gross profit margin down 230 bps vs Q1 FY22**
- **Inventory levels are well-controlled**
- **Pro forma NPAT for Q1 was $3 million below Q1 FY22**
- **Opened 3 new stores in Q1 and anticipate opening a further 5 new stores in FY23: 4 in Australia and 1 in New Zealand**

Attached is a copy of the Chair's and CEO & Managing Director's address to shareholders to be delivered today at the Company's 2022 AGM. In respect of trading year-to-date, Matt Spencer, Baby Bunting's CEO & Managing Director said:

> Year-to-date total sales growth is 12.0%, cycling 2.1% this time last year and we have seen an uplift in total transactions of 15.2%. Comparable store sales growth is 7.6%. We remain focused on our strategy to grow market share.
>
> Our first quarter margin performance has been below our expectations, although I do note that the first quarter is our smallest period of earnings.
>
> There were a few elements affecting first quarter gross margin performance.
>
> Over the last few years, we have made significant gross margin gains. However, in the first quarter, gross profit margin was 37.2%, which is down 230 basis points against the first quarter of FY22.

1. Total sales generated from stores (including the online store) open at the start of the prior financial year.

In Q1 FY23, we expected a minor year-on-year reduction in gross margin as a result of the Loyalty program only commencing in November 2021 plus more products moving to Every Day Low Price. The amount of the actual reduction has been greater than anticipated.

In tougher economic times, we continue to emphasise value in a competitive environment. We have maintained entry price points across our range ensuring great value every day, every visit.

During the quarter, we have seen some competitors discounting top selling items to drive sales. Our 5% Price Promise is a key part of our response to this and it means we will not be beaten on price.

There have been a few other drivers of our gross margin performance in the first quarter:

- We have experienced some unrecovered cost increases, where input costs have risen faster than retail prices. This has primarily been in the form of higher domestic freight charges and some FX movements.
- Our playgear department, which is around 5% of our sales, grew substantially during COVID. However, due to reduced demand in the category, there have been slowing sales against the prior year and heavier discounting in the market and, for us, that has seen gross margin adversely impacted by circa $1 million relative to last year.
- We have been delighted by the take up of our Baby Bunting family loyalty program which has been extremely popular. Our customers are redeeming the rewards they earn in subsequent purchases with us at a higher rate than anticipated. This has had a decretive effect on gross margin by circa 60 basis points more than we expected. This margin reduction effect is quarantined mostly to the first quarter as we cycle the introduction of our new Loyalty program in November 2021.

We reiterate that our inventory levels are well-controlled and our promotional calendar has remained consistent year-on-year.

We have plans in place to address the first half impacts outlined above to recover earnings over the full year.

We anticipate opening 8 new stores in the year. We have plans for 6 new stores in Australia, which includes the new stores already opened at Burnside in Melbourne and Hornsby in Sydney. We have also recently relocated our Ringwood store to a new, more convenient location at Eastland. In New Zealand, in addition to our new store at Albany, Auckland we expect to open a store in Christchurch later in the year.

Given the continuing economic uncertainty, inflationary pressures and other global challenges, we will not be providing any further guidance about FY23 earnings at this time.

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The release of this announcement was authorised by the Board.

For further information, please contact:

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Ph: 03 8795 8100

## Chair's and CEO & Managing Director's AGM address

### *Melanie Wilson, Chair and Non-Executive Director*

FY2022 was another year of growth, change and progress.

First, I want to thank our wonderful Baby Bunting Team Members who have – again – worked incredibly hard during the year.

I also acknowledge the support of our suppliers and other partners. These are critical relationships for Baby Bunting, and we are grateful for their support.

We are very aware that it is only with the support of our Team and suppliers and of our shareholders, that we are able to execute on our core purpose of supporting new and expectant parents.

### Growth strategy – grow market share

The Company's strategy to grow market share remains a key focus. The four key elements are:

- First, investing in digital to deliver the best possible customer experience across all channels and enabling new business models.
- Secondly, investing to grow market share from our core business.
- Thirdly, growth from new markets.
- And finally, to continue to pursue profit margin improvement.

The strategy is underpinned by four pillars:

- Building the Best Team
- Our Logistics and Supply Chain capabilities
- Our IT and Business Processes; and
- Leveraging Data to drive insights and revenue.

Baby Bunting's growth in sales and market share demonstrates we are executing on this strategy.

The progress we have made in our transformation agenda also illustrates the investments we are making to build the four pillars that underpin our strategy.

You will hear a bit more about those in today's presentation.

### FY22 Pro Forma Financial highlights

In FY22, we continued to perform strongly and delivered another year of strong growth.

We achieved sales of more than half a billion dollars for the first time, an increase of 8.3% on the prior year. Comparable store sales growth was 5.0%. I would remind you that our stores remained open throughout the COVID lockdowns and that our comparable store sales result is a true reflection of growth over the prior period.

At the gross profit level, gross profit margin was up strongly on the prior year to finish at 38.6%.

As we continued our investments in transformation projects and to support continued growth, Cost of Doing Business as a percentage of sales was up 85 basis points to 28.6%. At a retail level, leverage was achieved.

We were also pleased that EBITDA margin as a percentage of sales under the pre AASB lease accounting standards measure reached 10%. This is a significant milestone for the Company and a target we set for ourselves a few years ago.

This translated into another strong uplift in our group net profit after tax which, on a pro forma basis, finished up 13.6% on the prior period to be $29.6 million. This result included our investments in New Zealand. When the Australian business is viewed on a standalone basis, it achieved pro forma net profit after tax that was 20% higher than the prior year.

This was a very pleasing result as we continued to work through the various challenges that arose during the year.

Matt will talk more about the 2022 financial year shortly.

For our shareholders, the Company paid total dividends of 15.6 cents per share fully franked for the year. This was up 10.6% from the prior year.

**FY22 Operating Highlights**

Underpinning the Company's strong financial performance were a number of significant operating highlights.

We kept our team and our customers safe. Our 12-month rolling lost time injury frequency rate finished under 10 for the second year in a row and ahead of the prior year.

We opened 4 new stores, relocated two stores and refurbished a further two stores in the network.

Our store network is playing a very important role in our omni-channel offering with 48% of all online delivery orders processed through our stores. This means orders can be fulfilled more quickly and closer to the customer improving the experience for our customers.

Our private label and exclusive products strategy goes from strength to strength – with more than 45% of sales coming from private label and exclusive products. Of these sales, 37.1% relate to exclusive national branded products; an increase of 16% year-on-year. The other 8.2% of sales are through our own private label brands 4Baby, JENGO and Bilbi. This was a growth of 31.5% year-on-year.

Best Buy Product sales – or items that are part of our Every Day Low Price range – made up 37.7% of sales. In the current financial year, we have further expanded our Best Buy range to continue to provide great value to our customers. In his comments, Matt will expand a bit more on our ongoing commitment to value.

We launched our new loyalty program, Baby Bunting family, during the year. This is an omni-channel loyalty program that offers members a range of rewards and benefits.

During the year, we deployed a new headless digital architecture including a new website, for both Australia and New Zealand to complement our store network.

In New Zealand, while COVID-19 travel restrictions presented some challenges, we were very pleased to open our first overseas store in Auckland in August 2022. We also established a distribution centre to support online fulfilment and the future New Zealand store network.

And finally, the 2022 financial year saw the first full year of operations at our National Distribution Centre. It commenced operations in March 2021 and the expanded size of our DC means we have been able to generate greater efficiencies in relation to stock movements which is providing gross margin benefits.

The team has also done a great job across a range of projects and initiatives. Matt will speak to some of those in more detail later.

**Sustainability Strategy**

Baby Bunting released our second Sustainability Report in August, and I would encourage all shareholders to read that. It has some details on some great work underway.

We have adopted an ESG strategy that is based around three pillars: our People; our Communities; and our Planet.

During the year, we made progress on some of key initiatives.

In terms of Our People:

- We improved safety with a further reduction in our Lost Time Injury Frequency Rate
- We made great progress in our gender diversity goals – a point I will return to later.
- We expanded our Paid Parental Leave policy to provide greater support for our team members who are primary carers for new members of their family
- We have around half of all team members who are shareholders – and the Board has chosen to again make offers under the Company's Employee Gift Share Plan. This is the 8th year in a row we have made offers under that plan, providing eligible team members around $1,000 of Baby Bunting shares for free.

In terms of Our Communities:

- We made further progress on our long term goal of raising $10 million to support our communities – with close to $700,000 raised to support families in our community, including PANDA and Life's Little Treasures Foundations. These are both organisations that provide essential support to parents who are experiencing great challenges.
- We opened our Wen Huang Product Testing Room at our Store Support Centre.
- We continued our investment in partnerships with organisations committed to infant safety, including INPAA – and we will again be a Supporting Partner for the upcoming Baby Safety Month in November.

In terms of Our Planet:

- We commenced our journey to net zero emissions; our estimated scope 2 emissions were 4% lower than the prior period and 11% of our energy was from renewable sources – a number that will increase over the coming year.
- We will shortly convert our first store to roof-top solar power.
- And we will be phasing our plastic bags across our stores in the current financial year.

**Gender diversity**

Baby Bunting has a gender diversity target that looks to have women make up 50% across all levels of the Company by 2030.

As the slide shows, we have strong levels of representation across the board.

There have been some recent comments made about women in Baby Bunting's senior ranks, with some reports claiming that there are no women at this level. This is not correct. At the senior executive level, three out of 12 executives are women, including two line positions being our General Manager of Merchandise, Sarah Serle, and our General Manager of Marketing, Sue Dawson. I am confident that we will achieve our target of having 50% of women across that group in the future.

**Future market share growth opportunities**

Over the last 5 or 6 years, Baby Bunting has established itself as Australia's leading baby goods retailer.

We believe that there are significant growth opportunities available for Baby Bunting over the next few years that will provide the basis for even more growth.

We have updated our store network plan and are targeting a network plan of 120 stores across Australia and New Zealand.

Our current addressable market sits at $2.5 billion. We believe we can define our total addressable market to be more like $3.5 billion. This will be driven by range and product expansion and facilitated by our online channel and the new Baby Bunting Marketplace.

We have the leading specialty nursery website, and we see the opportunity to implement Australia's largest and most comprehensive baby or nursery marketplace to support new and expectant parents with all their needs in one location. We plan on doing this by leveraging our 32 million plus website visitations to bring together a Marketplace that will showcase more products, more brands, more suppliers and ultimately give parents and parents-to-be more choice through their parenting journey.

We see opportunities to leverage our Loyalty program further to deliver growth.

By focusing on these further growth opportunities, we are laying the foundations to support further growth in profitability and shareholder returns, while also providing a great experience for our customers and more opportunities for our supplier partners.

We believe there are exciting times ahead for many years to come.

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Later in the meeting, shareholders will have an opportunity to vote on the adoption of the Company's Remuneration Report and the approval of a grant to the CEO & Managing Director under the Company's long term incentive plan.

There have been no material changes in respect of these matters. The Board is continuing its approach to further reduce the number of rights outstanding to be below 5% of issued capital while still providing appropriate incentives that are aligned to long term growth in earnings and shareholder returns.

Shareholders will also have an opportunity to vote on the re-election of Gary Kent. Gary is retiring by rotation and will address shareholders later in the meeting.

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To close, I want to again thank all our Team Members in all of our stores, our Australian and New Zealand Distribution Centres and our Store Support Centre who all contribute to Baby Bunting's purpose of supporting new and expectant parents. They have a lot to be proud of.

I will now invite Matt Spencer to provide a bit more detail on FY22. He will also provide an update on year-to-date trading performance.

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***Matt Spencer, CEO & Managing Director***

Thank you, Mel.

It is great to be standing up in front of our shareholders again after being in lockdown during the last two years. I also welcome those participating via the online platform.

**Stable executive team with extensive retail experience**

As Melanie mentioned, Building the Best Team is one of the pillars that underpins Baby Bunting's strategy.

We have put together a great team over the last few years, bringing in new talent as the business has expanded and progressed along its journey. Collectively, the executive team has over 70 years' experience working at Baby Bunting.

Scott Teal, our Chief Operating Officer, manages the day-to-day trading performance across all channels, which includes Store Operations, Online, Merchandise and Supply Chain. The General Managers in the operational teams are Sarah Serle, who heads our Merchandise team, Michael Pane, who leads Store Operations, Rod Williams, who is in charge of Digital and Online and Marcus Robinson who is responsible for Supply Chain. Collectively, they have a very broad range of retailing experience, having careers that have seen them accumulate many years of experience both here and overseas.

Our operations team is supported by other key executives, with Sue Dawson our GM of Marketing and Sharyn Murray our GM of People & Culture.

The team is rounded out by Matt Rodda, GM IT and Transformation, Stu Chard, Executive GM Strategy and Corey Lewis, who in addition to being our Group Legal Counsel and Company Secretary also has responsibility for our Product Compliance team.

**Executing on our FY22 operational plan & growth priorities**

I am very proud of our team and what was achieved in FY22. We started the year with lockdowns occurring throughout Australia and with significant lockdowns in Melbourne and Sydney. Various other issues with supply chains and the ongoing impacts of COVID-19 meant that the 2022 financial year was yet another year of challenges.

Nevertheless, the team executed on our plans as we continue to build out the opportunities ahead of us.

**Market share growth continues**

Melanie has already talked to the financial highlights of the past year, the key call outs being:

- market share growth with sales of $507 million up 8.3% on the prior year;
- gross margin dollars up 12.7% with gross profit percent up 151 basis points to be 38.6% for the full year;
- the deleveraging in our cost of doing business metric which finished at 28.6% of sales – which reflected the impact of our new DC and the investment in New Zealand.

Resulting in pro forma EBITDA growth of 16.1% or $50.5m on a pre-AASB 16 basis. And on this measure, we have achieved our long term ambition of being a 10% EBITDA margin business.

**Supporting New Zealand parents with a local team**

During the year, we worked hard to lay the foundations for our store network in New Zealand. And shortly after the year end, we were excited to open our first store in Albany, Auckland.

While it took a bit longer than we anticipated – primarily due to COVID restrictions – the store is now open, and it has been very well received in the market.

We anticipate opening our second store in Christchurch in Q3 FY23. Now that potential landlords have seen the strength of our retail offering, we are working on a number of new deals which will help us achieve our network plan of 10 plus stores in New Zealand.

We have made significant investment in customer research, brand awareness campaigns and recruitment of local talent to bring a tailored New Zealand offer for New Zealanders by New Zealanders. During FY22, we made investments of around $1.5 million in one-off establishment costs and in FY23 a further $400,000 investment to finalise the set-up costs.

Our strategy in New Zealand is to sell the widest range of products, backed by great service at low prices every day.

**Transformation program delivering long-term benefits**

Our Transformation program was defined back in FY18. It is made up of a number of large investments to overhaul or modernise the business across systems infrastructure, brand and supply chain.

To date, the program is well progressed and already delivering value, notwithstanding it has taken longer than anticipated – largely as a result of COVID and the delays we experienced in launching the new website which pushed some projects back by two years.

In FY22, launching Loyalty and our new online tech stack were big milestones for the business. Since our last update to shareholders in August, we have successfully launched a new Payroll system, with works well-progressed on Advanced Order Management and Time and Attendance Systems – which will all complete in FY23.

As flagged in our August update, we also had planned to complete the implementation of new ERP and Point-of-Sale systems in FY23. As also highlighted, we elected to defer further progress on these two projects to instead prioritise our work on the Baby Bunting Marketplace, which is a significant growth opportunity for us.

**FY23 operating priorities**

We are focused on delivering growth in uncertain times. Our priorities for FY23 include the following:

- We will continue to pursue market share growth through our expanding offer as well as through the expansion of our store network and online presence.
- We are committed to restoring gross margin performance in a high inflation environment and I'll talk about that in more detail a bit later.
- We will continue to work through our transformation program, which – as I described earlier – is beginning to approach completion.
- We are working to launch the Baby Bunting Marketplace in the second half of FY23.
- A current focus is on continuing to expand the products available online – with a current year goal of exceeding the range of products available physically in store.
- We are expanding our Every Day Low Price – or Best Buy – program to include more products. Again, I'll have more comments in a later slide.
- We aim to continue to invest in our private label and exclusive product ranges.
- In relation to Loyalty, we will be working to further harness the benefits of our new Loyalty program which is, pleasingly, performing well beyond our anticipated level of customer engagement.
- And finally, we have plans to open 8 new stores. To date, we have already opened Burnside and Hornsby in Australia and Albany in New Zealand.

**Future market share growth opportunities**

As Melanie mentioned, Baby Bunting has identified a number of future market share growth opportunities. I will expand on a few of them now.

Baby Bunting Marketplace

We have set ourselves a goal of introducing Australia's most comprehensive specialty marketplace for baby products. We are planning to build on the proposition of the one stop, baby shop leveraging our 32 million plus website visitations to bring together a curated Marketplace that will showcase more products, more brands, more suppliers and ultimately give parents and parents-to-be more choice through their parenting journey.

We see the Marketplace as an ideal way to grow existing categories and grow our market share of our expanded total addressable market. We will do this via first party suppliers, both existing and new suppliers and drop ship capability. We will also be introducing by invitation third party suppliers to sell a curated range of products.

Our dedicated project team is working on the technical platform with our solution partner, we are building out the offering and have initiated discussions with potential suppliers. We are expecting to launch the Baby Bunting Marketplace in the second half of FY23.

Expanded Total Addressable Market

The pandemic has impacted retail in many ways, but positively it has accelerated the growth and maturity of the transition to online shopping and the omni channel experience. In Australia, we are now at levels and experience consistent with other markets and the baby category is no different. Many categories such as car seats and prams, cots and furniture lend themselves to a tactile in-store and omni channel offer and categories such as toys, apparel, soft goods and feeding have seen a growth online.

Traditionally our online range has been governed by our store footprint or format and the associated shelf space.

We have historically identified the total overall baby goods market at around $5.2 billion. Of that, the total addressable market for Baby Bunting based on our store format and offer has been $2.5 billion. Our analysis has highlighted that within the overall market, the online channel for certain categories of product has expanded significantly.

With our significant investment in our digital platforms and our national Distribution Centre, we are now in a position to be able to expand our online offer and therefore contemplate a significantly larger addressable market. For example, we estimate that the online channel for babywear has grown from $130 million to $370 million in recent years. This traditionally has not been a product category that we have supported in our online offer.

Alongside our expansion of our online offer, the introduction of a Marketplace provides us with the platform to broaden our offer of first party product via dropship capability. It also presents the opportunity for third party suppliers to leverage our online traffic to sell differentiated product and hence broaden our range and ultimately the total addressable market for Baby Bunting. This is yet again another reason why babybunting.com.au will continue to be the one stop, baby shop.

Given these factors, we believe that we can redefine our total addressable market in Australia to be $3.5 billion out of a larger total market.

**Commitment to value**

We have always been committed to providing value for our customers. With the economic outlook becoming more challenging, we are working hard to lower the cost of parenting.

We are expanding the number of products included as part of our Best Buy – or Every Day Low Price – range. Having recently expanded Best Buy to include our core range of cots & furniture and carriers, Best Buy sales now make up over 50% of sales year-to-date up from 37.7% in FY22.

We remain committed to our 5% Price Beat Promise. And we are reinvesting supply chain efficiencies that we generate into price.

We are continuing our investment in Private Label and Exclusive Products, and they now make up over 45% of sales year-to-date.

Our investments in value will ensure that customers can have confidence when shopping with Baby Bunting.

**Trading update**

Before I hand back to Melanie, I would like to give you an insight into trading since we last briefed the market on 12 August this year.

Year-to-date total sales growth is 12.0%, cycling 2.1% this time last year and we have seen an uplift in total transactions of 15.2%. Comparable store sales growth is 7.6%. We remain focused on our strategy to grow market share.

Our first quarter margin performance has been below our expectations, although I do note that the first quarter is our smallest period of earnings.

There were a few elements affecting first quarter gross margin performance.

Over the last few years, we have made significant gross margin gains. However, in the first quarter, gross profit margin was 37.2%, which is down 230 basis points against the first quarter of FY22.

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- We have experienced some unrecovered cost increases, where input costs have risen faster than retail prices. This has primarily been in the form of higher domestic freight charges and some FX movements.
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