



# Baby Bunting Group Limited

Full year ended 25 June 2017

Results presentation  
11 August 2017

**Matt Spencer**

Chief Executive Officer &  
Managing Director

**Darin Hoekman**

Chief Financial Officer

# Important Notice and Disclaimer

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## **Forward looking statements**

This document contains certain forward looking statements and comments about future events, including Baby Bunting's expectations about the performance of its business. Forward looking statements can generally be identified by the use of forward looking words such as 'expect', 'anticipate', 'likely', 'intend', 'should', 'could', 'may', 'predict', 'plan', 'propose', 'will', 'believe', 'forecast', 'estimate', 'target' and other similar expressions within the meaning of securities laws or applicable jurisdictions. Indications of, and guidance on, future earnings or financial position or performance are also forward looking statements.

Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is a risk that such predictions, forecasts, projections and other forward looking statements will not be achieved. The Baby Bunting Annual Report 2017 which includes the Directors' Report (dated 11 August 2017) contains details of the number of material risks associated with an investment in Baby Bunting. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. Forward looking statements involve known and unknown risks, uncertainty and other factors which can cause Baby Bunting's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements and many of these factors are outside the control of Baby Bunting. As such, undue reliance should not be placed on any forward looking statement. Past performance is not necessarily a guide to future performance and no representation or warranty is made by any person as to the likelihood of achievement or reasonableness of promise, representation, warranty or guarantee as to the past, present or the future performance of Baby Bunting.

## **Pro forma financial information**

Baby Bunting uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Baby Bunting considers that this non-IFRS financial information is important to assist in evaluating Baby Bunting's performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendix to this presentation.

All dollar values are in Australian dollars (A\$) unless otherwise stated.

# Agenda

- 1 Results highlights
- 2 Baby goods market and category dynamics
- 3 Operating review
- 4 Invest to grow
- 5 Financial information
- 6 Outlook
- 7 Appendices



1.

## Results highlights

# FY2017 Results highlights

<b>1</b> Trading <sup>(1)</sup>	<ul style="list-style-type: none"><li>• Sales of <b>\$278.0 million</b>, up <b>17.4%</b> on the prior corresponding period</li><li>• Comparable store sales growth of <b>6.9%</b></li><li>• Gross profit income up <b>17.4%</b>, gross margin of <b>34.3%</b></li><li>• Cost of doing business (pro forma) <b>improved</b> by <b>37 bps</b> from FY2016, to <b>26.0%</b> of sales</li></ul>
<b>2</b> Earnings <sup>(2)</sup>	<ul style="list-style-type: none"><li>• EBITDA (pro forma) of <b>\$23.0 million</b>, up <b>23.0%</b> on the prior corresponding period</li><li>• EBIT (pro forma) of <b>\$18.9 million</b>, up <b>22.3%</b> on the prior corresponding period</li><li>• NPAT (pro forma) of <b>\$13.0 million</b>, up <b>21.9%</b> on the prior corresponding period</li><li>• Final dividend of <b>4.3 cents per share</b> (fully franked)</li></ul>
<b>3</b> Capital Structure	<ul style="list-style-type: none"><li>• <b>\$6.4 million of cash</b> at end of FY2017, plus <b>\$25.2 million available</b> in the borrowing facility</li><li>• Net cash flow from operating activities of <b>\$13.2 million</b></li><li>• Capital expenditure of <b>\$7.4 million</b></li></ul>
<b>4</b> Growth	<ul style="list-style-type: none"><li>• EBITDA (pro forma) margin growth of <b>38 bps</b> on the prior corresponding period, to <b>8.3%</b> of sales</li><li>• Investment in customer experience in-store &amp; online and our people culture programs. <b>NPS finished the year at 63</b></li><li>• <b>6 stores opened</b> – Camperdown, Belrose and Blacktown in NSW, Preston in VIC, Baldivis in WA, and Mile End in SA</li></ul>
<b>5</b> Outlook	<ul style="list-style-type: none"><li>• We expect to open 5 to 8 new stores in FY2018, with 3 new stores opening in 1H FY2018</li><li>• FY2018 EBITDA expected to be in the range of \$25.3 – \$27.0 million, excluding employee equity incentive expenses</li></ul>

Note:

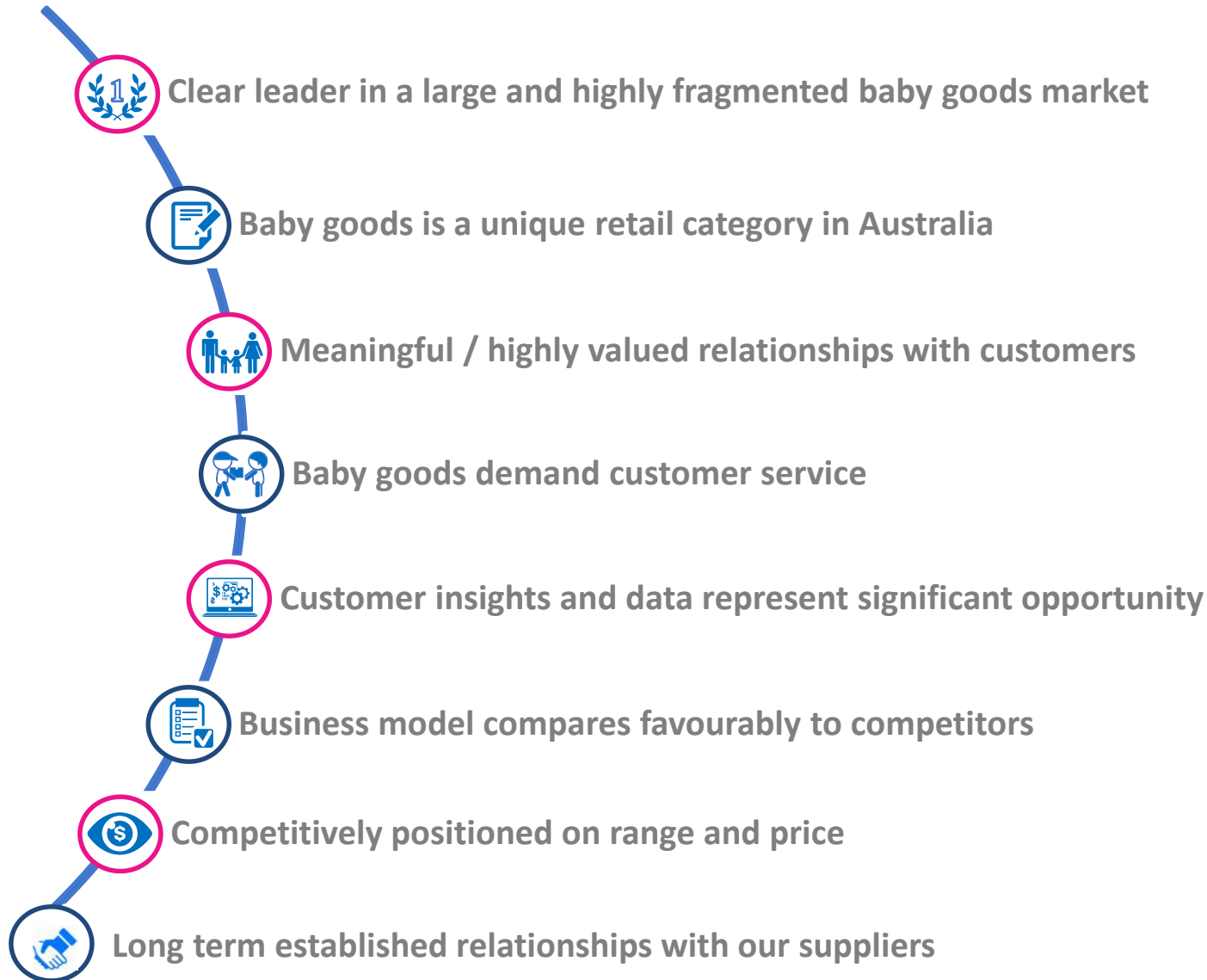
1. Pro forma financial results have been calculated by excluding employee equity incentive expenses for the current financial year and the prior financial year. In addition, the results for FY2016 have been calculated to reflect the results of the consolidated entity as if the Company was publicly listed for the entire financial year. Refer to page 37 for a reconciliation
2. Refer to page 37 for a reconciliation of the non-IFRS financial information contained in this presentation to the IFRS-compliant information

2.

## Baby goods market and category dynamics



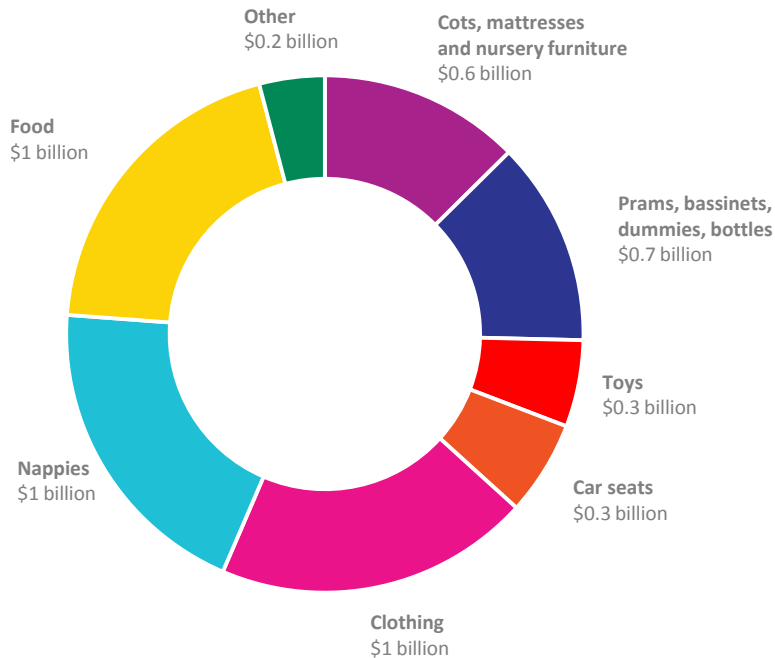
# Baby Bunting is well positioned for future growth



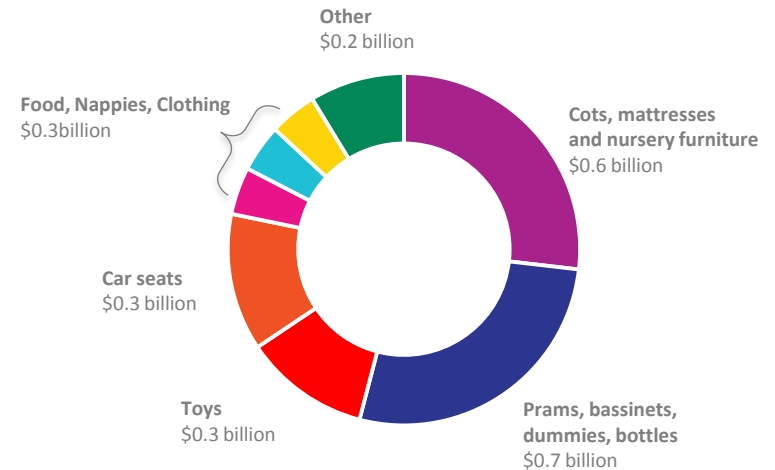
# Large addressable baby goods market

Baby Bunting's addressable market is a component of the larger baby goods market

The baby goods market is a \$5.1bn market in Australia<sup>(1)</sup>



Baby Bunting \$2.4bn estimated addressable market breakdown by category



To arrive at Baby Bunting's addressable market we discount the food, apparel and nappies categories which are a smaller component of our broad product offering

Notes:

1. IBIS World estimates



# Fragmented competitive landscape

Baby goods is a \$5.1bn market in Australia

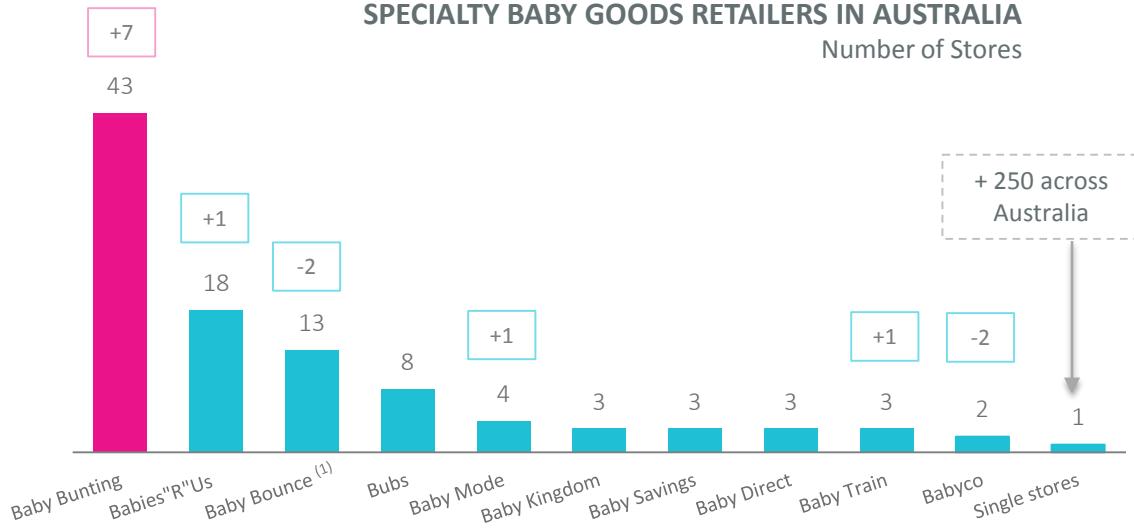
BBN estimated addressable market is \$2.4bn

Large number of small, specialty players & department stores

Strict Australian mandatory product safety standards provide barriers to entry

## SPECIALTY BABY GOODS RETAILERS IN AUSTRALIA

Number of Stores



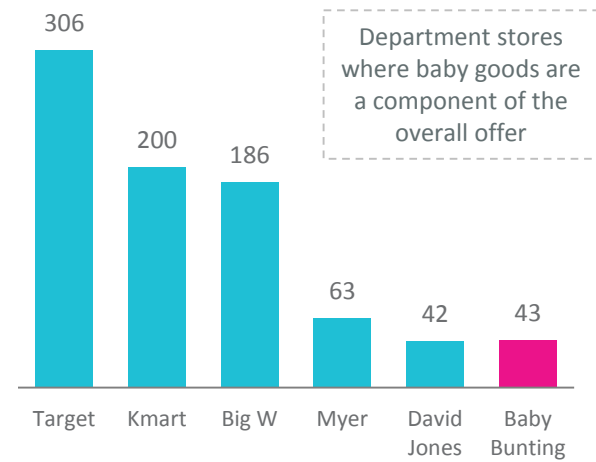
Notes:

1. Toys'R'Us has an additional 21 stores that sell a limited range of baby goods

Note : Store change numbers are changes since 1 July 2016

## DEPARTMENT STORES IN AUSTRALIA

Number of Stores

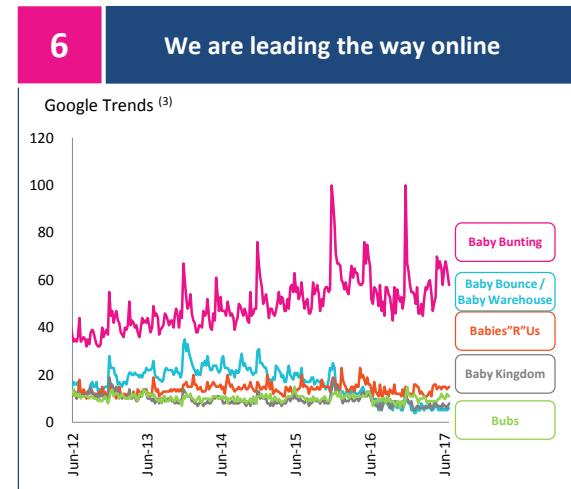
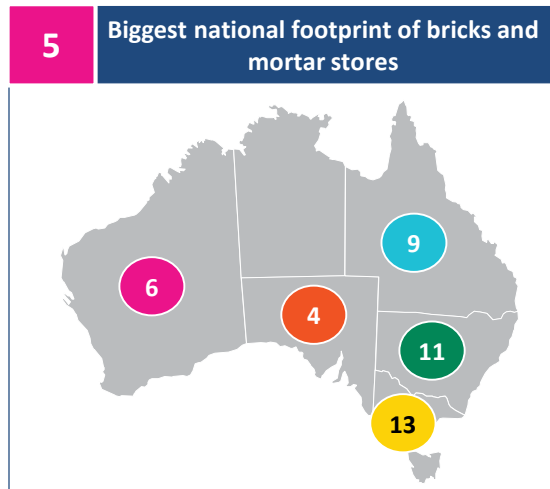
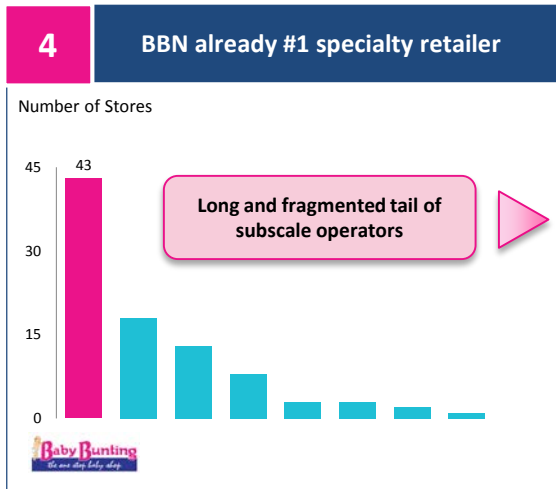
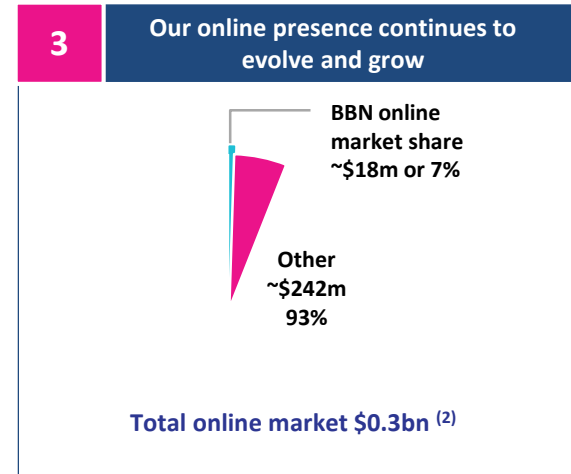
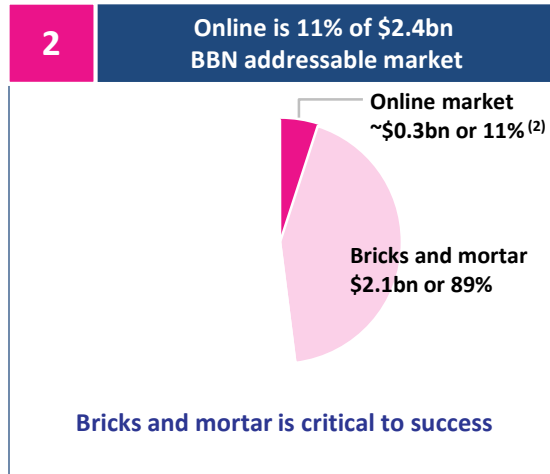
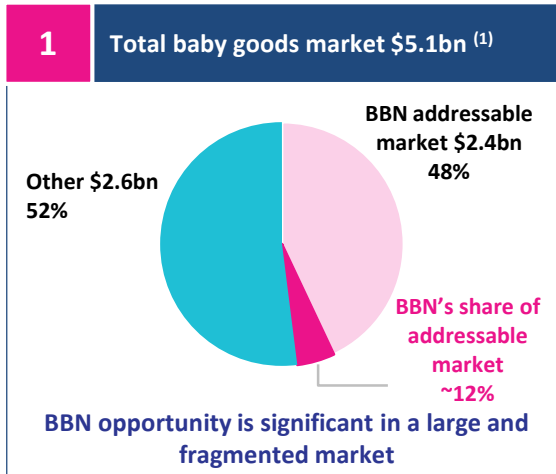


## PURE PLAY ONLINE RETAILERS & MARKET PLACES IN AUSTRALIA WITH A BABY GOODS COMPONENT



# Baby Bunting is a clear leader

Low market share in a leading position with significant scope to grow in a \$5.1 billion market



Notes:  
 1. IBIS World estimates  
 2. Roy Morgan research (excludes nappies)  
 3. Google trends for Australia only



# Baby goods is a unique retail category in Australia

## Australian mandatory product safety standards provide barriers to entry

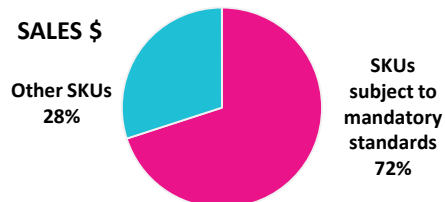
**Mandatory product safety standards are administered and enforced by the ACCC and apply to certain baby goods sold by retailers in Australia**

- It is illegal to sell products to consumers in Australia that do not meet mandatory standards
- Manufacturers produce for the size of the Australian market



## PRODUCT SAFETY AUSTRALIA

Products sold by Baby Bunting subject to mandatory standards



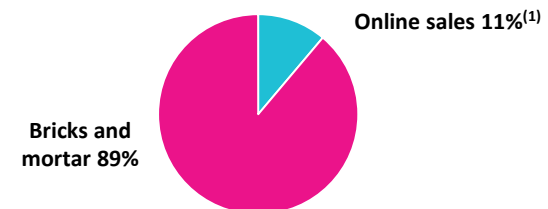
## Bricks & mortar critical in showcasing products and supporting product innovation

**In store experience is important to customers/suppliers/brands**

- BBN is Australia's largest retailer of branded baby goods. Suppliers/brands need bricks and mortar to showcase new products and introduce new products to the market
- The highly considered buying decision for new and expectant parents lends itself to a bricks and mortar retail experience



Baby goods category - Bricks and mortar retail sales vs Online sales







Notes:

1. Roy Morgan research (excludes nappies)

# Meaningful customer relationships built on trust

Customer service is relevant at each stage of the customer journey and drives word-of-mouth referral



	Pre Birth	New Born	Early Years	Second Child...
<b>Parental stage</b>				
<b>Needs</b>	<ul style="list-style-type: none"> <li>• Highly considered purchase</li> <li>• Seeking guidance and advice</li> <li>• Significant spend</li> <li>• Services critical (lay-by, car seat fitting)</li> </ul>	<ul style="list-style-type: none"> <li>• New circumstances, tailored advice</li> <li>• Immediate purchases based on needs</li> </ul>	<ul style="list-style-type: none"> <li>• Driven by developmental milestones</li> <li>• Every child different, tailored advice</li> </ul>	<ul style="list-style-type: none"> <li>• Journey recommences</li> <li>• Two plus children, new advice</li> <li>• Replacement products</li> <li>• “Double” products</li> </ul>
<b>Products</b>	<ul style="list-style-type: none"> <li>• Car seats</li> <li>• Prams</li> <li>• Carriers / capsules</li> <li>• Cots</li> <li>• Furniture</li> <li>• Maternity wear</li> </ul>	<ul style="list-style-type: none"> <li>• Breast pumps</li> <li>• Sterilizers</li> <li>• Monitors</li> <li>• Accessories</li> <li>• Nappies</li> <li>• Sleeping</li> </ul>	<ul style="list-style-type: none"> <li>• Car seats (rear to forward)</li> <li>• Feeding (liquids to solids)</li> <li>• Educational toys</li> <li>• Clothing</li> <li>• Sleeping</li> <li>• Bath &amp; Potty</li> </ul>	<ul style="list-style-type: none"> <li>• Car seats</li> <li>• Double strollers</li> <li>• Beds</li> <li>• Mattresses, linen</li> </ul>
<b>Services across all channels</b>	<ul style="list-style-type: none"> <li>• Relevant online content</li> <li>• Gift registry</li> <li>• Layby</li> <li>• Consumer finance</li> <li>• Technical product knowledge</li> </ul>	<ul style="list-style-type: none"> <li>• Car seat fitting</li> <li>• Convenient locations</li> <li>• Car parking</li> <li>• Free click and collect</li> <li>• Baby Talk</li> </ul>	<ul style="list-style-type: none"> <li>• Physical demonstration instore</li> <li>• Tailored advice</li> <li>• Feeding &amp; parent rooms</li> </ul>	

~60% of new customers are directed to Baby Bunting via word-of-mouth referral



# International retail market experience

## Historical experience shows the Amazon + ebay marketplace have had varying impacts

	Australia <sup>(1)</sup> AUD \$bn	USA <sup>(1)</sup> USD \$bn	Canada <sup>(1)</sup> USD \$bn	United Kingdom <sup>(1)</sup> USD \$bn
<b>Retail market size</b>	<b>275</b>	<b>2,983</b>	<b>292</b>	<b>488</b>
% retail sales – bricks & mortar	92.5%	89.5%	93.4%	87.5%
<b>% retail sales – online</b>	<b>7.5%</b>	<b>10.5%</b>	<b>6.6%</b>	<b>12.5%</b>
Online market share (Amazon + ebay)	28% <sup>(1)</sup>	51% <sup>(1)</sup>	16% <sup>(1)</sup>	46% <sup>(1)</sup>
<b>Amazon + ebay share of total retail market</b>	<b>2.1%</b>	<b>5.3%</b>	<b>1.0%</b>	<b>5.7%</b>
Baby Bunting's addressable market in Australia	\$2.4bn AUD			
<b>Implied potential sales of Amazon + ebay in Australia</b>	<b>~\$50m AUD</b>	<b>~\$125m AUD</b>	<b>~\$24m AUD</b>	<b>~\$135m AUD</b>

Notes:

(1) Source: Euromonitor, Morgan Stanley Equity Research estimates

(2) Sample USA, Canada, United Kingdom

- There has been significant speculation about the potential impact of Amazon's arrival in Australia
- ebay market place currently operates in Australia. Amazon's entry expands the "marketplace" offering
- Mature international markets<sup>(2)</sup> may serve as a guide – where Amazon + ebay have historically achieved between 1% and 5.7% share of the total retail markets in those countries
- This experience may imply potential combined market sales of Amazon + ebay in Baby Bunting's addressable market of up to ~\$135 million (or 5.7% of \$2.4 billion)

# Baby Bunting competitively positioned on range & price

## Benchmarking analysis: Baby Bunting versus Amazon<sup>(1)</sup> comparing Baby Bunting's top 250 SKUs

- We compared price and availability against Amazon in USA, UK, Germany, and Canada
- ~80% of Baby Bunting's top 250 selling SKUs are not available outside of Australia
- ~56% of Baby Bunting's top 250 selling SKUs are subject to Australian mandatory safety standards
- ~20% of Baby Bunting's top 250 selling SKUs are sold on Amazon in the 4 analysed markets, **noting that of those products:**
  - Baby Bunting is **cheaper** than Amazon for ~50% of products, and those products are on average 30% cheaper than Amazon
  - Amazon is cheaper than Baby Bunting for ~50% of products, and those products are on average 20% cheaper than Baby Bunting

**Conclusion: pricing and products are market specific. Based on the analysis at this time, there is not a significant difference (+/-) in Baby Bunting pricing relative to overseas markets. As we continue to build scale there is opportunity to further strengthen Baby Bunting's price proposition.**

### Notes:

(1) This analysis includes both Amazon direct and Amazon market place.

FEEDING & MONITORS

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gro

BABYWEAR

3.

Operating  
review

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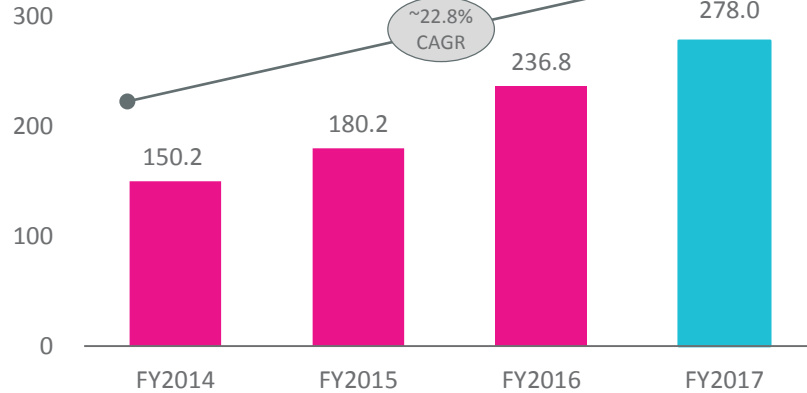


# Strong financial track record continues

**FY2017 sales growth of 17.4% and pro forma EBITDA growth of 23.0%**

## SALES

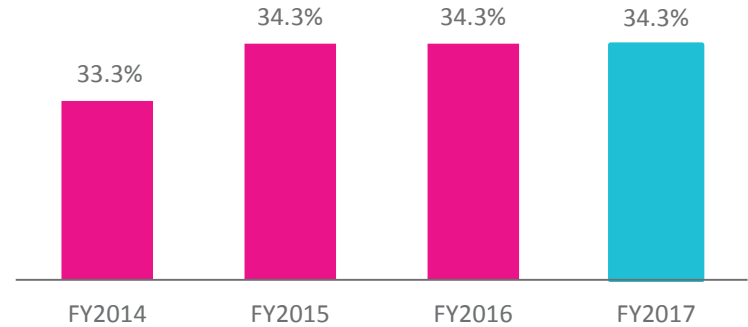
(\$ million)



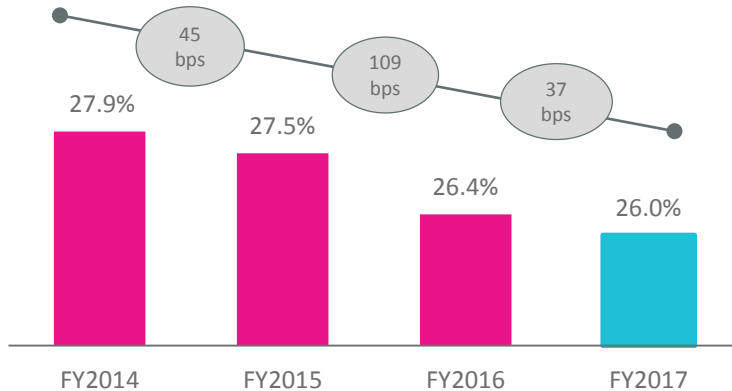
## GROSS MARGIN

(%)

FY2017 2H margin improved 25 bps on FY2016 2H

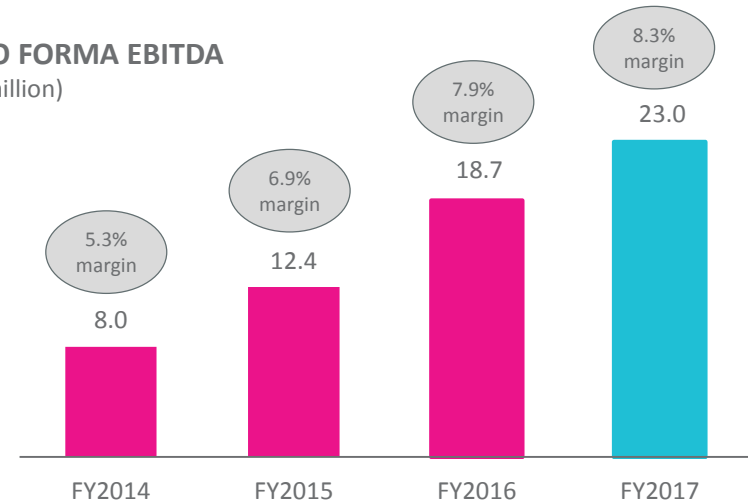


## PRO FORMA CODB (%) <sup>(1)</sup>



## PRO FORMA EBITDA

(\$ million)



Note:

1. Refer to Glossary for a definition of CODB (%)



# Growth strategies

## Multiple drivers of organic growth

1

### Growth from new store roll-out

- Disciplined roll out of 80 plus stores in identified trade catchments with a target of 4 to 8 new store openings each year

2

### Growth from existing stores and online

- 46% of stores are less than 3 years old
- Multiple initiatives to improve customer experience across all channels
- Growing brand awareness across all states and territories
- Increased investment in digital and online

3

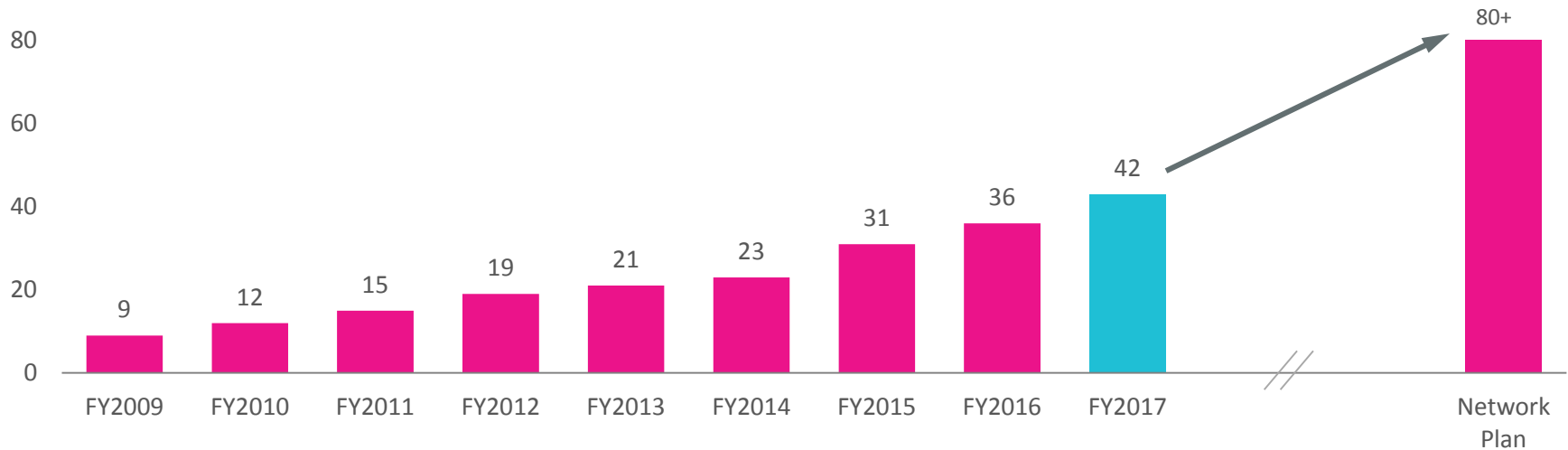
### EBITDA margin improvement

- Gross margin expansion by increases in scale, improving sourcing options and managing product mix
- Leverage and continue to invest in IT, the Support Office and Distribution Centre
- Building the best team
- Supply chain opportunities

# 1 Growth from new store roll-out

## 6 new stores opened in FY2017

Number of stores



- **43<sup>rd</sup> store** added in July 2017
- **Pipeline** – 5 to 8 stores in FY2018, including **2 or 3 regional stores**
- Network plan of 80 plus trade catchments identified based on demographic, location and competition parameters, ~45% of remaining sites are in regional locations (population < 200,000)
- **1,500 to 2,000 square metres** in bulky goods centres or at stand-alone sites. **Regional store** format of **1,000 to 1,200 square metres** without compromising on range or service

# 1 New store economics

## New stores deliver positive returns from year 1 and strong ROIC by year 4

	New Baby Bunting stores (all stores opened From June 2008)		Group Average (all stores opened > 4 years)
	YEAR 1	YEAR 2	FY2017
Revenue per store (\$m)	4.7	5.4	7.9
EBITDA per store (\$m)	0.3	0.5	1.2
Store EBITDA margin	6.7%	8.5%	15.0%
Return on Invested Capital <sup>(1)</sup>	~22%	~33%	>70%

- The table shows average data for all new stores opened since June 2008 where stores have been open for at least 12 months
- On average, these stores delivered approximately \$0.3 million EBITDA in year 1 and \$0.5 million in year 2
- Across Baby Bunting's portfolio of stores open for more than 4 years, the average EBITDA margin is currently 15.0%
- It is anticipated that regional stores at maturity will achieve between 40% and 60% of the current sales of stores opened for more than 4 years. Our 2 Victorian regionals are achieving sales of 60% of an average metro store.

### Notes:

1. Return on Invested Capital is calculated as store EBITDA divided by end-of-period cumulative store capital expenditure plus end-of-period store net inventory and an allocation of warehouse net inventory based on the number of stores open. Year 1 and Year 2 Return on Invested Capital is based on the first and second full twelve month trading periods that the store has been open.

## 2 Mature market economics

### Case study: Melbourne metro – our heritage market made up of mostly mature stores (7 of 10)

#### Melbourne metro – total market economics

	FY2009	FY2017
# of stores	7	10
Indexed sales revenue #	100	169
CAGR sales growth % (FY2009 to FY2017)		6.8%
Store sales average Comp growth % (ex online)		3.1%
Store sales average Comp growth % (inc online)		3.8%
EBITDA margin% <sup>(2)</sup>	12.9%	15.0%
Return on Invested Capital% <sup>(1)</sup>	75.5%	74.4%

- Since 2009 we have opened 4 new stores (including 1 relocation) within our Melbourne metropolitan market, growing sales by ~70%
- Comp store sales have ranged between +6.3% and -2.3% over the period. Variation occurs when new stores are added and some sales redirection occurs
- ROIC is +74% despite 30% (3 of 10) of Melbourne metro stores being immature (historically it takes Baby Bunting stores 4 years to mature on average)
- We expect +70% ROIC in other markets based on our Melbourne metro network roll out experience
- We will continue to add further stores to our Melbourne network

### Demonstrated ability to grow profit and maintain ROIC as we grow our store network

#### Notes:

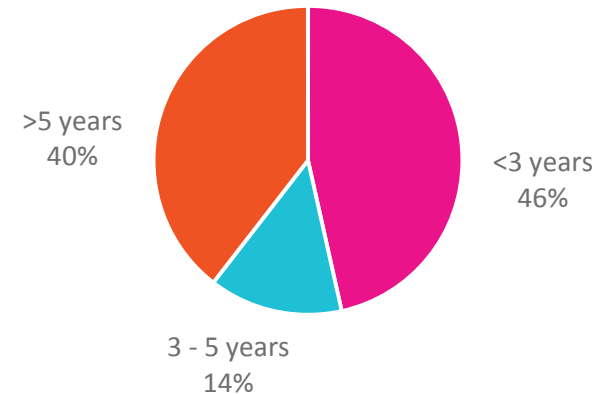
1. Return on Invested Capital is calculated as combined store EBITDA divided by end-of-period cumulative combined store capital expenditure plus end-of-period store net inventory and an allocation of warehouse net inventory based on the number of stores open.
2. Excludes EBITDA from online.

## 2 Growth from existing stores and online

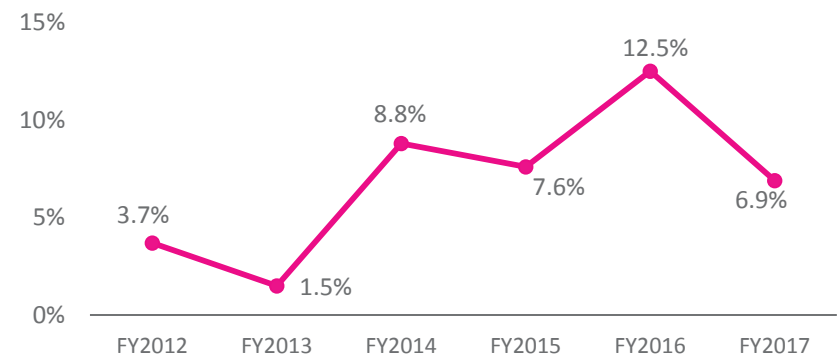
### Strong FY2017 comparable store sales growth<sup>(1)</sup> of 6.9%

- **46% of our stores** are less than 3 years old and in their growth phase
- Average comparable store sales growth of **6.8% pa since June 2012**
- **Focused strategies** to continue comparable store sales growth include:
  - Investment in **digital** and **online capabilities**
  - Continue to improve our **in-stock** position
  - Continued investment in **training and in-store support**
  - Focus on core categories of **prams, car safety, cots & consumables**
  - Everyday low pricing across a range of **Best Buy** products, now including **car seats**
  - **Grow** click and collect revenue

Store maturity profile at 25 June 2017 (years opened)



Comparable store sales growth (%) <sup>(1)</sup>



Note:

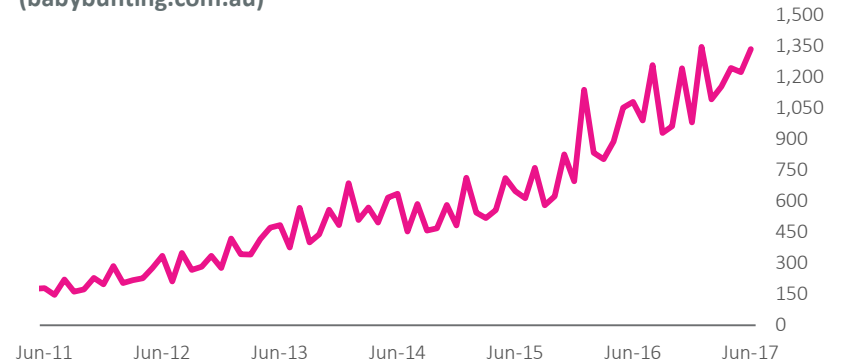
1. Refer to Glossary for a definition of comparable store sales growth

## 2 Strong progress in online engagement & sales

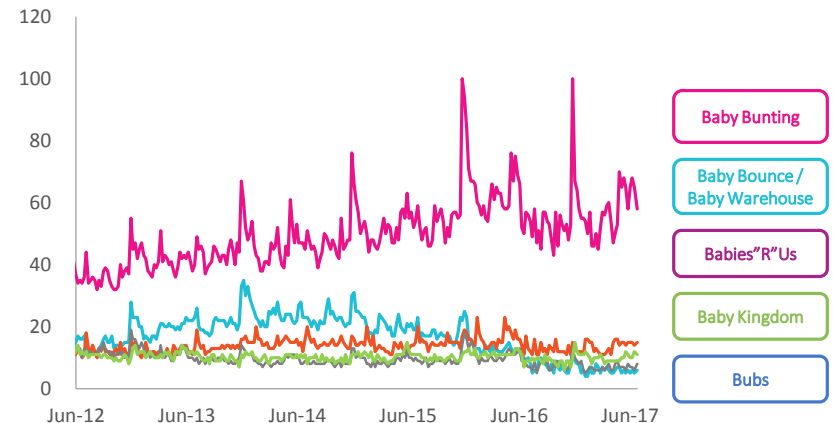
### [babybunting.com.au](http://babybunting.com.au) continues to evolve & grow as the leading specialty baby goods website

- **76% increase in online sales** from FY2016, 39% growth in website sessions
- **Online sales** (including click & collect) now **6.4% of sales** (up from **4.2% in FY2016**). Click & Collect comprises 25% of online sales
- Launched **branded Baby Bunting** on the **ebay marketplace** in **June 2017** to provide an additional channel to market
- **Social media** leveraged across Facebook, Instagram, Pinterest and Twitter. During FY2017:
  - **22% increase in Facebook followers**, **90% increase in Instagram** and **~10% increase in Twitter** followers
  - **+25% increase in email addresses** in the customer database
- **Engagement with loyal customer base** through **“baby talk”** forums

TOTAL WEBSITE SESSIONS BY MONTH  
(babybunting.com.au) <sup>(1)</sup>



GOOGLE TRENDS <sup>(2)</sup>



Note:

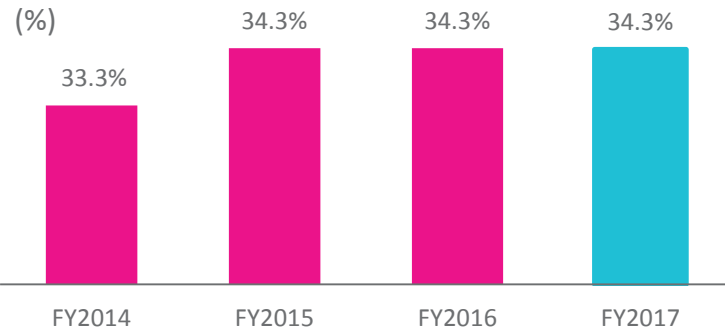
1. Source: Baby Bunting. Measures total non-unique website sessions across all devices
2. Source: Google Trends for Australia only

## Sales growth at constant GP% is driving CODB leverage

### Gross Margin

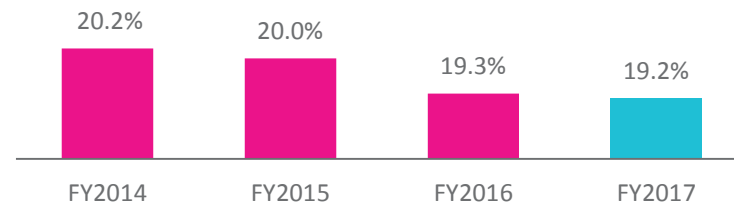
- Gross profit income up **17.4%** to \$95.3 million, with GP% constant as a percentage of sales at **34.3%**
- FY2017 **2H** gross profit **improved** by **25 bps** on FY2016 2H
- Best Buy** program expanding across key categories with **151% increase** in units sold (4Baby and national brands), and nearly 100% growth in sales
- In FY2018 Best Buy expanded to include car seats**
- Private Label and Exclusive Products represented 11.4% of sales in FY2017. Long term target **~25% of sales**

### Gross Margin

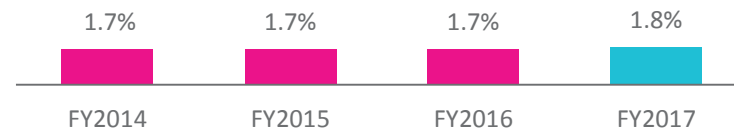


### Cost of Doing Business metrics (% sales) <sup>(1)</sup>

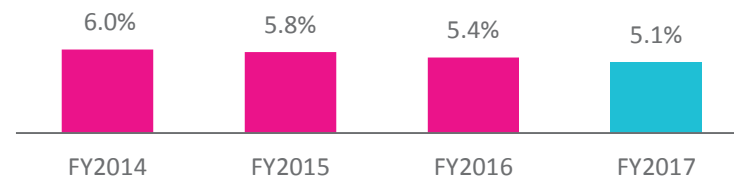
#### Store expenses



#### Marketing expenses



#### Pro forma overhead expenses




Note:

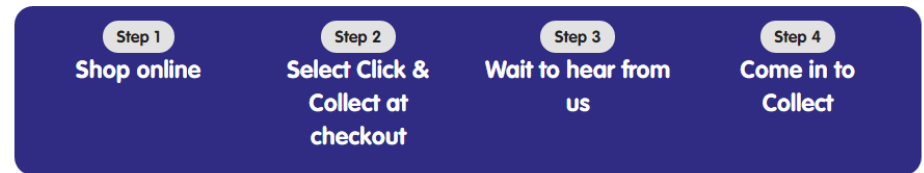
- All functional expenses (excluding depreciation) as a % of total sales


## Staying ahead of our customers' expectations across all channels is an investment priority

- **CRM** – invest to **better understand and engage with our customers** across all channels
- **Digital Team** – investing in capability
- **43 to 80+ fulfilment hubs (store to door)**
- **3 hour** “order to pickup” for **click & collect**
- Rapid order fulfilment **DC to the customer**
- Investment in **digital innovation online and in-store**
- Investment in **SEO, SEM and social media platforms**
- Prioritization and pursuit of **supply chain opportunities** to improve our order processing and dispatch times for online transactions

	DC fulfilment	Store fulfilment	
	<b>Click &amp; Collect</b>	~2-3 days	~3 hours 95% improvement

### It's Simple, Just Follow These Easy Steps



Average processing times	May 2016	June 2017	
	<b>Order to Dispatch</b>	~44 hours	~19 hours 57% improvement

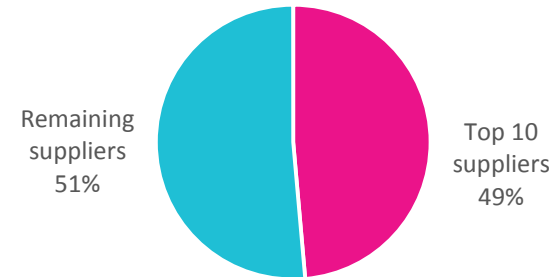


# 3 Strengthened supplier relationships

## Strong growth in private label and exclusive products<sup>(1)</sup>

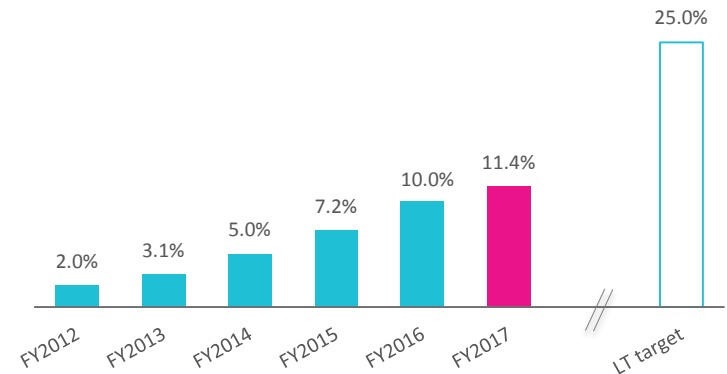
- Network of more than **230** suppliers across third party brands, private label and exclusive products
- **Top 10 suppliers represent 49% of sales**
- Working with our supplier partners to deliver greater **private label** and **exclusive product** opportunities
- **Private label and exclusive product** sales have grown **34.5%** from 10.0% of sales in FY2016 to **11.4% of sales in FY2017**. Long term target **~25% of sales**

Supplier breakdown by sales (FY17)



- **Supply chain review launched** in Q1 FY2018 – see Slide 28

% of Sales – Private Label and Exclusive Products



### Notes:

1. Private Label and Exclusive Products includes products sold by Baby Bunting under its own 4Baby brand (ie private label products) as well as products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time

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4.

Invest to grow



# We aim to be the most loved baby retailer for every family, everywhere

We finished FY2017 with our Net Promoter Score at 63. We continue to invest in the customer experience

## Convenience across all channels



Investing in growing the store network nationally & a mobile led digital experience

## Deliver great value to the customer



Taking the leading position on prices to deliver great value every day every visit

## Offering a unique customer experience



Investing to create meaningful/high valued customer relationships built on trust

## The widest assortment of product



Investing in the range to reinforce our position as the "One Stop Baby Shop" for every family, everywhere

## Relevance & understanding

for that wonderful, frustrating, hilarious, serious, exhausting, rewarding experience called parenting



Investing in data and analytics to understand and support our customers at a special time in their lives

## A Team focused on service



Building a professional and diverse Team of highly trained, customer focused people

**Our core purpose is to support new and expectant parents in navigating the early years of parenthood**

# Investment in value, supply chain, digital & IT

## Building the supply chain of the future

### Undertaking review of supply chain opportunities:

- Distribution network design to support long term network store growth and freight efficiency
- Improving working capital management and stock availability
- Online fulfilment
- Upstream sourcing
- Supply chain systems
- Investment in people



## Enabling ourselves through IT & digital

### Staying ahead of our customers' expectations across all channels is an investment priority

- Infrastructure & communications
- Digital platforms
- Applications & mobility
- Online environment
- CRM & marketing automation
- In-store experience
- Investment in people



## Offering the best value, everyday

### Leading with everyday low pricing on Best Buys:

- Value continues to be important
- We continue to have the widest range at price points to suit all customers regardless of means
- Best Buys expanded to include car seats
- Strengthening our pricing promise



## Building the best team

### We continue to invest in capability:

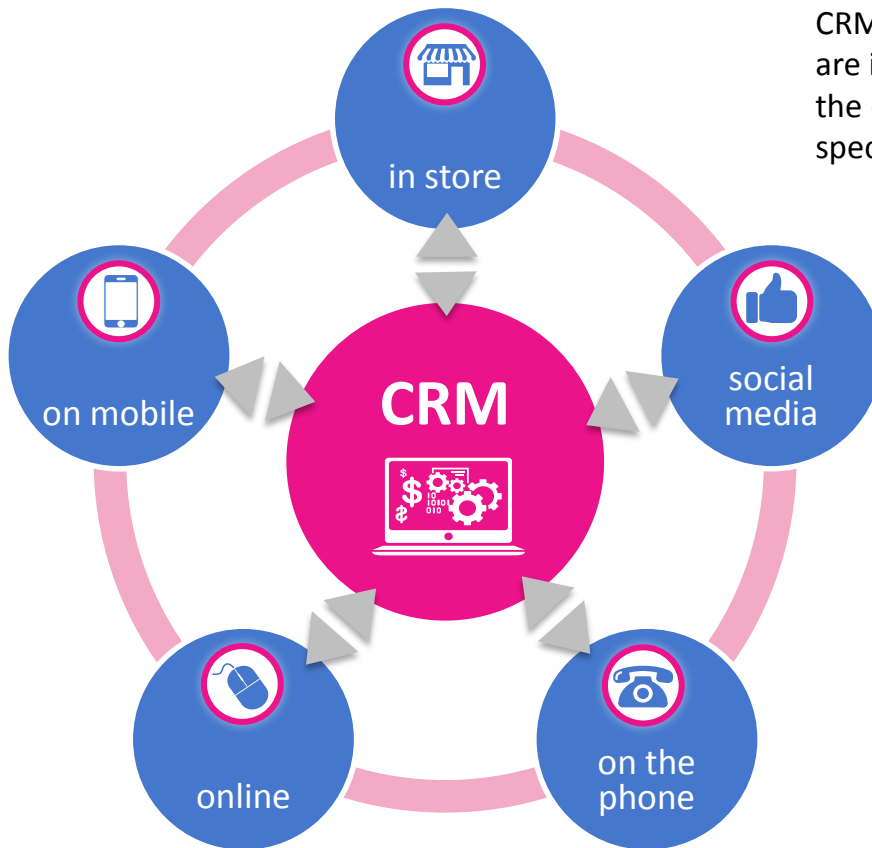
- Supply chain
- Marketing
- IT and project management
- Digital
- Training



# Leveraging customer data is a significant opportunity

## Enabling customer loyalty through meaningful engagement

CRM allows precise understanding of where customers are in their journey – Baby Bunting can be relevant to the customer, offering products that are needed at a specific point in time...



### Pre Birth

- Necessary pre-birth purchases
- Educational materials



### New Born

- Boy / Girl
- Specific needs



### Early Years

- Transitions – feeding, walking, toileting, clothing



### Second Child...

- “Double” products
- Targeted promotions (e.g. birthdays)

CRM and marketing automation now deployed

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bugaboo

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5.

Financial information



# Summary Pro Forma Income Statement

## Pro forma statement of profit or loss

	Pro Forma FY2017	Pro Forma FY2016	Change
<b>\$ million</b>			
<b>Sales</b>	<b>278.0</b>	<b>236.8</b>	<b>17.4%</b>
Cost of sales	(182.7)	(155.7)	
<b>Gross Profit</b>	<b>95.3</b>	<b>81.2</b>	<b>17.4%</b>
<i>Gross Profit Margin</i>	34.3%	34.3%	
Cost of doing business	(72.3)	(62.5)	
<i>Cost of doing business %</i>	26.0%	26.4%	
<b>EBITDA</b>	<b>23.0</b>	<b>18.7</b>	<b>23.0%</b>
<i>EBITDA margin</i>	8.3%	7.9%	
Depreciation and amortisation	(4.0)	(3.2)	
<b>EBIT</b>	<b>18.9</b>	<b>15.5</b>	<b>22.3%</b>
<i>EBIT margin</i>	6.8%	6.5%	
Net finance costs	(0.4)	(0.3)	
<b>Profit before tax</b>	<b>18.5</b>	<b>15.2</b>	<b>22.0%</b>
Tax	(5.6)	(4.6)	
<b>Net profit after tax</b>	<b>13.0</b>	<b>10.6</b>	<b>21.9%</b>
<i>Net profit after tax margin</i>	4.7%	4.5%	

## Financial highlights

- **Total sales of \$278.0 million, up 17.4%**
  - Comparable store sales growth of 6.9%
- **Gross margin of 34.3%**, consistent with FY2016
- Pro forma **EBITDA of \$23.0 million**, up 23.0%
- Pro forma **Cost of Doing Business \$72.3 million**
  - **37 bps** leverage achieved;
  - **New store costs** of \$6.5 million (including the annualising costs of 5 stores opened in FY2016);
  - Annualising costs for software licences and moving to a **hosted IT and communications environment**; and
  - New **Support Office roles** and annualising Support Office roles added in FY2016, including roles in merchandising, IT and compliance

# Balance Sheet

## Statement of financial position

	Statutory 25-Jun-17	Statutory 26-Jun-16
<b>\$ million</b>		
Cash and cash equivalents	6.4	7.4
Inventories	47.9	41.0
Plant and equipment	20.0	17.0
Goodwill & Intangibles	45.4	45.1
Other Assets	14.2	12.3
<b>Total Assets</b>	<b>133.9</b>	<b>122.8</b>
Payables	28.0	23.8
Borrowings	4.8	0.0
Provisions	6.1	5.4
Income tax Payable	0.9	0.8
<b>Total Liabilities</b>	<b>39.8</b>	<b>30.0</b>
<b>Net Assets</b>	<b>94.1</b>	<b>92.7</b>
<b>Net Cash / (Debt)</b>	<b>1.6</b>	<b>7.4</b>

## Capital structure

- **\$1.6 million net cash position**
- **Inventory** increase reflects 7 new stores added (~\$5.2 million), and ~\$1.6 million of inventory to support sales growth (stock turns constant YoY at 4.1 turns)
- Payables increase in line with inventory
- **Other Assets** include \$0.7million increase in layby receivables (driven by sales growth) and prepayments
- Undrawn **borrowing facility** of \$25.2 million

## Dividends

- FY17 was abnormal as we paid 100% of prior year dividend – **\$7.9 million** – as well as the 1H FY2017 interim dividend of **\$3.6 million**
- **FY2017 final dividend of 4.3 cents per share** to be paid in September (Board's policy is to target an ongoing payout ratio of **70% - 100% of pro forma NPAT**)



# Cash Flow Statement

## Statement of cash flows

	Statutory FY2017	Statutory FY2016
<b>\$ million</b>		
<b>Underlying Statutory EBITDA<sup>1</sup></b>	<b>23.0</b>	<b>18.8</b>
Movement in working capital	(3.9)	(3.2)
Tax Paid	(5.5)	(6.2)
Net finance costs paid	(0.4)	(0.4)
<b>Net cash flow from operating activities</b>	<b>13.2</b>	<b>9.0</b>
New store capex	(4.9)	(2.8)
Capex (excluding new stores)	(2.4)	(3.4)
<b>Operating cashflow</b>	<b>5.9</b>	<b>2.8</b>
Net proceeds from issue of shares	0.0	25.1
Dividends paid	(11.6)	(16.1)
Borrowings (net)	4.8	(8.0)
<b>Net cash flow</b>	<b>(0.9)</b>	<b>3.8</b>

1. Excludes IPO transaction costs expensed and equity expenses. Refer to page 37 for reconciliation.

## Financial highlights

- **Change in working capital reflects** 7 new store openings (including Munno Para which opened shortly after year end) and investment in inventory to support sales growth
- **Tax paid** includes finalisation of FY2016 tax return (\$0.8m) and FY2017 provisional tax (\$4.7m)
- **New store capex** for 7 new stores. Baby Bunting undertook additional development work on 3 of the 7 new stores – additional capex for these 3 stores is offset by lower lease costs over the life of the store leases
- **Capital expenditure** (excluding new stores) included investments in:
  - Improved website, adding click & collect in-store fulfilment functionality, CRM & expansion of digital platforms; and
  - Signage and investment in store fixtures to improve the customer shopping experience

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Outlook



# Outlook

## FY2018 guidance

- ~\$4 million capital for infrastructure and capability to deliver growth, plus investment in new stores and refurbishments, and up to \$3 million investment in operating expenditure of which ~\$0.5 million is non-recurring
- After 6 weeks of trade (6 August) total sales growth was 8%. Comparable store sales growth was -4%, reflecting differences in the promotional program and lower pram sales
- Expect comparable store sales growth to be mid-single digits for the year
- EBITDA expected to be in the range of \$25.3 million to \$27.0 million, representing growth of between 10% to 17%. This excludes employee equity incentive expenses
- Anticipate opening 5 to 8 new stores in FY2018. In addition to Munno Para (opened in July 2017), we expect to open another two stores later in 1H FY2018

Note: Refer to "Forward looking statements" section on page 2 of this Investor Presentation (regarding the risks associated with forward looking statements). Please also refer to section 4 of the 2017 Directors' Report (dated 11 August 2017) which describes some of the key risks and uncertainties that may have an effect on the Company's ability to execute its business strategies.



7.

## Appendices

# Statutory - Pro Forma Income Statement Reconciliation

	FY2017			FY2016		
	Statutory FY2017	Add Pro Forma adjustments <sup>(a)</sup>	Pro Forma FY2017	Statutory FY2016	Add Pro Forma adjustments <sup>(a)</sup>	Pro Forma FY2016
<b>\$ million</b>						
<b>Sales</b>	<b>278.0</b>		<b>278.0</b>	<b>236.8</b>		<b>236.8</b>
Cost of sales	(182.7)		(182.7)	(155.7)		(155.7)
<b>Gross Profit</b>	<b>95.3</b>		<b>95.3</b>	<b>81.2</b>		<b>81.2</b>
Cost of doing business:						
Store expenses	(53.3)		(53.3)	(45.6)		(45.6)
Marketing expenses	(4.9)		(4.9)	(4.0)		(4.0)
Warehouse expenses	(3.6)		(3.6)	(3.4)		(3.4)
Administrative expenses	(11.4)	0.8	(10.5)	(10.6)	1.1	(9.5)
IPO transaction costs expensed	0.0		0.0	(1.9)	1.9	0.0
<b>EBITDA</b>	<b>22.1</b>	<b>0.8</b>	<b>23.0</b>	<b>15.7</b>	<b>2.9</b>	<b>18.7</b>
Depreciation and amortisation	(4.0)		(4.0)	(3.2)		(3.2)
<b>EBIT</b>	<b>18.1</b>	<b>0.8</b>	<b>18.9</b>	<b>12.6</b>	<b>2.9</b>	<b>15.5</b>
Net finance costs	(0.4)		(0.4)	(0.4)	0.1	(0.3)
<b>Profit before tax</b>	<b>17.7</b>	<b>0.8</b>	<b>18.5</b>	<b>12.2</b>	<b>3.0</b>	<b>15.2</b>
Income tax expense	(5.4)	(0.1)	(5.6)	(3.9)	(0.7)	(4.6)
<b>Net profit after tax</b>	<b>12.2</b>	<b>0.7</b>	<b>13.0</b>	<b>8.3</b>	<b>2.3</b>	<b>10.6</b>

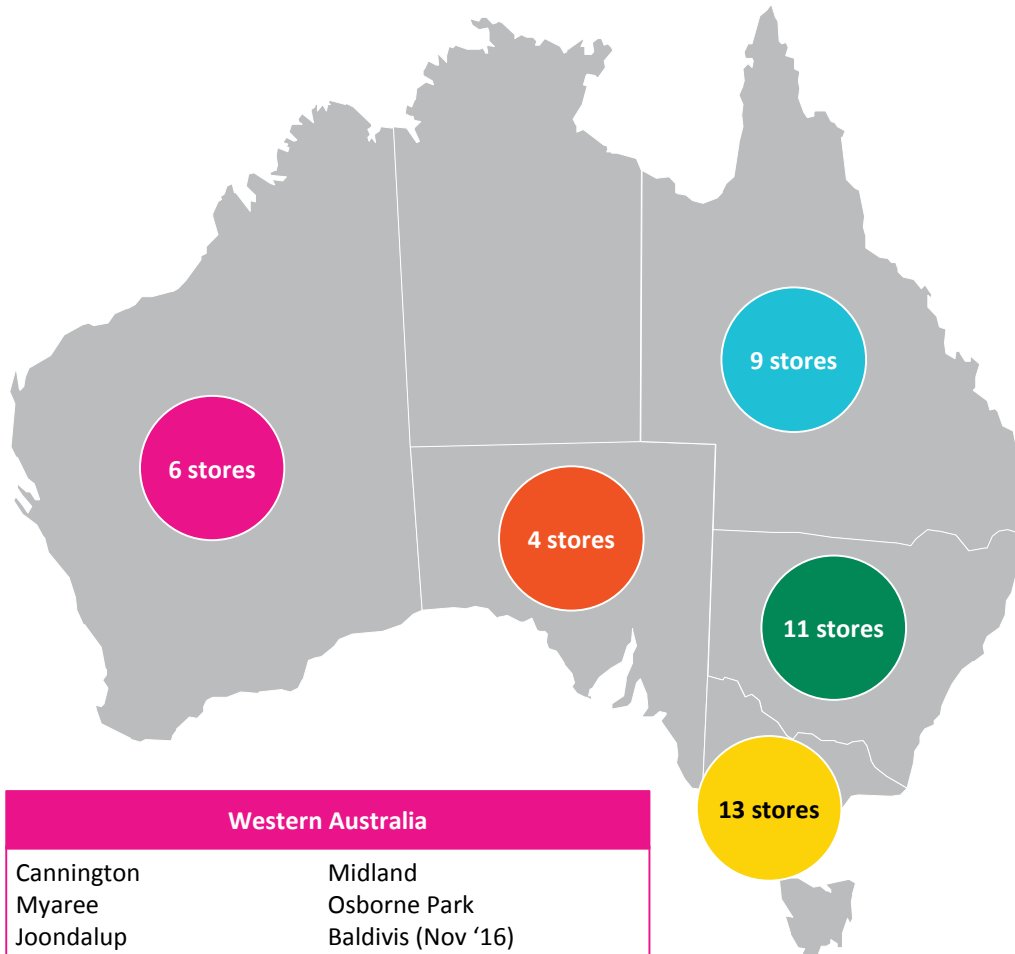
(a) Pro forma financial results have been calculated to:

- reflect the result of the consolidated entity for the previous corresponding period as if the Company was publicly listed for a full financial year; and
- exclude employee equity incentive expenses.

The Baby Bunting Financial Report for the full-year which includes the Directors' Report (dated 11 August 2017) contains further details of the above adjustments under the section "Pro forma financial results".

# Baby Bunting's store network

43 stores across Australia, with significant roll-out potential to over 80 stores



Western Australia	
Cannington	Midland
Myaree	Osborne Park
Joondalup	Baldvis (Nov '16)

Queensland	
Helensvale	Booval
Kawana	North Lakes
Fortitude Valley	Burleigh Waters
Townsville	Capalaba
Macgregor	

New South Wales and ACT	
Penrith	Campbelltown
Warners Bay	Camperdown (Oct '16)
Taren Point	Belrose (Dec '16)
Auburn	Blacktown (May '17)
Moore Park	Fyshwick (ACT)
West Gosford	

Victoria		
Hawthorn	Ringwood	Maribyrnong
East Bentleigh	Thomastown	Bendigo
Frankston	Ballarat	Preston (Aug '16)
Taylors Lakes	Geelong	
Narre Warren	Hoppers Crossing	

South Australia	
Gepps Cross	Mile End (Mar '17)
Melrose Park	Munno Para (July '17)

# Glossary

- 
- Comparable Store Sales Growth**
- Calculated as a percentage change of the total sales generated from stores (including the online store) in a relevant period, compared to the total sales from the same set of stores in the prior financial year, provided the stores were open at the beginning of the prior financial year
- 
- Cost of Doing Business (CODB)**
- Includes store, administrative, marketing and warehousing expenses (excluding depreciation and amortisation)
- 
- Exclusive Products**
- Products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time
- 
- Private Label**
- Products sold by Baby Bunting under its own brand (Baby Bunting currently markets its private label products under the 4Baby brand name)
-