



10 April 2018

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

BABY BUNTING'S MARKET POSITION STRENGTHENS AS SECTOR CONSOLIDATION CONTINUES

- **Two competitors, Baby Bounce and Baby Savings, have each recently entered into external administration**
- **Baby Bounce operated 10 stores across NSW and Queensland; Baby Savings operated 4 stores in Sydney**
- **The effect of these competitor changes for FY18 is not yet clear. In the short term, they may have a negative effect on Baby Bunting's sales and/or gross profit margin for FY18**
- **This industry consolidation further strengthens Baby Bunting's position to grow its business and profitability in FY19 and beyond**

Baby Bunting Group Limited (**Company** or **Baby Bunting**) notes that earlier today administrators were appointed to the companies operating the Baby Bounce business in NSW and Queensland. The administration relates to 6 Baby Bounce operated stores in New South Wales and 4 stores in Queensland. This follows the appointment of administrators to Baby Savings Pty Ltd on 6 April 2018. Baby Savings operated 4 stores in the Sydney metropolitan area, including one that traded as Baby with Style.

Both Baby Bounce and Baby Savings are specialty baby goods retailers. The immediate trading future of the Baby Bounce and Baby Savings entities is a matter for the companies' respective administrators.

As measured by number of stores, Baby Bounce was the third largest speciality baby goods retailer in Australia and Baby Savings was the equal fourth largest speciality baby goods retailer.

The current level of industry consolidation experienced during the course of this financial year is unprecedented. This comes at a time when Toys "R" Us, Inc. in the US has also announced the intended sale or closure of some of its global subsidiaries which may include the Australian operations. These developments follow on from the industry consolidation that was observed in the first half of FY18, including the liquidation of Bubs Baby Shops (6 stores in Queensland and 2 stores on the NSW central coast) and the closure of Baby Bounce's 3 stores in Western Australia, along with other specialty baby goods retailers. At that time, the Company's sales performance and gross margin were adversely affected by the distressed retailing associated with the competitor closures.

In February, the Company reiterated that EBITDA (excluding employee equity incentive expenses) for FY18 is expected to be around \$23 million.

The effect of the current Baby Bounce and Baby Savings administrations is, at this stage, unknown. In the short term, it is possible that Baby Bunting's sales and gross margin performance may be adversely

affected. If that occurs, there will be a risk that the Company's earnings for the full financial year may be less than previous guidance of around \$23 million.

The Company will update the market on full year guidance once the impact of the ongoing industry consolidation becomes clearer.

Matt Spencer, CEO and Managing Director, said *"These changes may have an effect on our financial performance in the short-term. However, with our low cost of doing business, strong balance sheet, established multi-channel strategy and great team, Baby Bunting is very well placed to capitalise on these market changes now and in FY19 and beyond."*

Baby Bunting remains the clear leader in sector consolidation

Baby Bunting continues to grow market share, it is continuing with its store roll-out program and remains focussed on achieving EBITDA margin improvement by gross margin expansion and cost of doing business leverage.

In Q3 FY18, comparable store sales growth was 4.7% (against the prior corresponding period) and total sales have grown 13.7% (pcp). In recent weeks, gross margin has come under some pressure through increased discounting.

Matt Spencer said *"Baby Bunting's core purpose is to support new and expectant parents in navigating the early years of parenthood. Baby Bunting customers can have confidence when they shop with us that we will be there to support them along their journey. We have almost four decades of history and experience in Australia and a deep understanding of parents' and babies' needs. We are passionate about our vision to be the most loved baby retailer for every family, everywhere."*

"Most importantly, customers can have confidence that when they shop with Baby Bunting, they will receive great value every day and every visit. When customers avail themselves of our services, such as our layby service, they can have full confidence that their monies and purchases will be safe."

In commenting on recent store opening, Matt Spencer said *"Since the end of the first half, we have opened three new stores at Aspley and Browns Plains in Queensland and at Rutherford in NSW. The Aspley and Rutherford stores are at premises that were previously occupied by Bubs Baby Shops. By opening these stores, Baby Bunting has been able to continue to provide products, service and advice to parents and parents-to-be in those areas. Importantly, we have also been able to provide jobs to a number of experienced and enthusiastic team members who had been facing unemployment when their former employer entered administration."*

Work is proceeding on opening a further store in regional Queensland before the end of FY18. In addition, a new store in Chatswood, Sydney will open in early FY19 and negotiations are being finalised for another new store in Melbourne to open in early FY19. Baby Bunting expects to open between 4 and 8 new stores in FY19.

Further information and enquiries

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