10 August 2018

Baby Bunting Group Limited (ASX: BBN)

FY2018 Full Year Results

POSITIVE START TO FY19 FOLLOWING A YEAR OF INDUSTRY CONSOLIDATION

FY18 results

- **Total sales of $303.1 million, up 9.0% on the prior corresponding period (pcp) with comparable store sales flat (pcp) when our 4 largest specialty baby goods competitors entered administration**
- **Gross profit income up 5.9%, gross margin impacted by price deflation at 33.3% (FY17: 34.3%)**
- **Pro forma[1] EBITDA of $18.6 million, down 18.9% (pcp). Statutory NPAT was $8.7 million, down 29.1% (pcp). Pro forma NPAT was $9.6 million, down 25.9% (pcp)**
- **Return on average funds employed (ROFE[2]) of 15.5%**
- **Fully franked dividend of 2.5 cents per share**

FY19 trading and outlook

- **Strong trading for the first six weeks of FY19 with comparable store sales growth of 9.8%**
- **Gross profit margin expected to recover to be +34% in FY19**
- **FY19 EBITDA expected to be in the range of $24 million to $27 million, excluding employee equity incentive expenses**

Baby Bunting Group Limited (Baby Bunting or the Company) today reported net profit after tax for the financial year ended 24 June 2018 of $8.7 million. On a pro forma basis, net profit after tax was $9.6 million.

"*The past financial year has seen Baby Bunting strengthen and consolidate its market leading position as the largest specialty baby goods retailer in Australia. In unprecedented times, Baby Bunting's top 4 specialty baby goods competitors all entered external administration resulting in significant price deflation as a result of distressed retailing. Despite this, Baby Bunting was still able to grow sales and transaction volumes within the difficult trading environment*", Baby Bunting's CEO and Managing Director, Matt Spencer said.

"*The focus for the year ahead is to grow our business by continuing to deliver to our customers the broadest range, at the best value, conveniently across multiple channels while providing excellent service and advice.*"

Business performance

Baby Bunting's pro forma EBITDA was $18.6 million, down 18.9% on the prior corresponding period (FY17: $23.0 million). On a statutory basis EBITDA was $17.5 million (FY17: $22.1 million).

1. Consistent with prior years, pro forma financial results have been calculated to exclude the non-cash impact of employee equity incentive expenses. Refer to page 29 of the FY18 Investor Presentation for a reconciliation between statutory and pro forma financial results. 2. Return on average funds employed (ROFE) is calculated as pro forma EBIT for the previous 12 months as a percentage of average (opening, mid and closing) funds employed. Total funds employed is net assets excluding net debt and net tax balances.

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Sales and gross margin

Total sales grew by 9.0% to $303.1 million and total transactions grew 12.5% (against the prior corresponding period) with comparable stores seeing transaction growth of 2.6%. Comparable store sales were flat year on year (negative 0.2%), noting that 2H comparable store sales revenue was stronger, with growth of 1.3%.

Baby Bunting's four largest specialty baby goods competitors entered external administration during the year and have either ceased trading or are expected to do so shortly. These changes created some challenging market conditions. They had an effect on Baby Bunting's sales and gross margin performance, as distressed retailers lowered retail prices to generate sales and clear inventory. This also resulted in full year price deflation[3] of 3.6%, although price deflation slowed considerably towards the end of the financial year. This trend has continued into FY19 as year on year price deflation is now running in line with prior years at around negative 0.9%.

Gross profit increased 5.9% to be $100.9 million. Gross profit as a percentage of sales declined 100 basis points (bps) to 33.3%. As the year progressed, gross profit margin improved. The first half gross profit margin was 120 bps below the prior year and the second half gross profit margin was 70 bps below the prior year. This gross profit margin recovery has come about due to improved trading terms with supplier partners and an increased proportion of private label and exclusive products. Gross profit margin is expected to recover to be above 34% in FY19.

Comparable store sales growth for the first 6 weeks of FY19 was 9.8% (as at 5 August 2018).

Private Label and Exclusive Products

During FY18, sales from our expanding range of private label and exclusive products grew 100%. For the year, 20.9% of total sales came from this category, noting that sales of private label and exclusive products were 23% in the second half. This growth has come primarily from the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting in particular in the prams and strollers, cots and furniture and the car safety categories.

Digital and online

Total online sales grew 63% and made up 9.5% of total sales. Click and collect grew 66% during the year and was 27% of online sales. The growth of the store network has complemented the growth in online sales, with online sales in relevant catchments consistently increasing following the establishment of a Baby Bunting store in that area.

A key focus is to invest further in digital to deliver the best possible customer experience across all channels. Towards the end of the year the new Baby Bunting gift registry mobile app was launched, enabling parents and parents-to-be to create and share gift registries consisting of products selected from Baby Bunting's range. Significant investment has commenced in the website re-platform project with the objective of deploying a new e-commerce platform later this year to provide a step change in Baby Bunting's digital channel to deliver engaging content and experiences for customers at every stage of their journey.

Operating expenses

Pro forma cost of doing business for the full year was $82.3 million, representing 27.1% of sales and an increase of 113 bps on the prior year. Overheads (excluding employee equity incentive expenses) have remained constant against FY17 at 5.1%.

3. Price deflation is a measure of change in average sale price of all items (excluding clearance and new items).

Store roll-out

Baby Bunting opened five new stores during the year, with a further store opening in July 2018 (Toowoomba (Qld)), bringing the total number of stores to 48. Baby Bunting expects to open a further three stores in 1H FY19 and two more in 2H FY19. Following the announced closure of Toys R Us / Babies R Us, Baby Bunting is reviewing potential store opportunities that may become available in catchments identified in Baby Bunting's existing network plan.

Dividend

The Board has announced a final fully franked dividend of 2.5 cents per share. Total dividends for the year are 5.3 cents per share (equivalent to approximately 70% of the Company's FY18 pro forma NPAT) (FY17: 7.2 cents per share). The record date is Friday, 24 August 2018 and the dividend payment date is Friday, 14 September 2018.

Outlook

After the first 6 weeks of trading in FY19 (to 5 August), total sales growth was 16.5% and comparable store sales growth was 9.8%.

The Company expects FY19 EBITDA to be in the range of $24.0 million to $27.0 million, representing growth of around 30% to around 45%. This excludes employee equity incentive expenses.

This guidance assumes:

- comparable store sales growth to be mid to high single digits for the year. A key factor in the guidance range is the extent to which Baby Bunting captures incremental market share from the competitors who have exited the market;
- gross margin to exceed 34% in FY19; and
- 6 new stores opened for the year (including Toowoomba which opened in July 2018).

This outlook is provided subject to the important notice regarding forward looking statements in the Investor Presentation released to ASX at the same time as this update.

Investor conference call

A presentation and a discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.30am (AEST)** on **Friday, 10 August 2018**.

To access the call, you must register promptly by 9.30am (AEST) using the details below:

Australian guests	Dial: 1800 725 000
International guests	Dial: +61 2 8373 3610
Conference ID	1199 542#

Further information and enquiries

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