

TEMPLE & WEBSTER GROUP LTD

ABN 69 608 595 660

ASX Announcement

27 November 2018

Chairman's address to AGM: 27 November 2018

Good morning everyone and welcome to the Annual General Meeting for Temple & Webster. My name is Stephen Heath and I am the Chairman of the Board of Directors.

It is now 10:30am and I am advised that a quorum is present. I declare this meeting open.

I would like to firstly introduce my colleagues:

- Sue Thomas, Non-executive Director
- Conrad Yiu, Co-founder & Non-executive Director
- Michael Egan, Company Secretary
- Mark Coulter, Co-founder & Chief Executive Officer; and
- Mark Tayler, our Chief Financial Officer

I would also like to acknowledge members of our Executive team who are here today. I would ask them stand to introduce themselves. They are:

- Adam McWhinney, Co-founder and Chief Experience Officer
- Dean Ramler, Founder of Milan Direct
- Mike Henriques, Chief Information Officer
- Christie McGuinness, Head of People & Culture
- Susie Sugden, Chief Commercial Officer & CMO
- Lucy Sutherland, Head of Trade & Commercial

Also present are Chris George and Graham Leonard, partners with EY, the Company's auditor, who are available to answer questions on the accounts at the appropriate time.

After my introductory marks, Mark Coulter, CEO will take you through the 2018 financial year in more detail, including a year to date trading update. We will then proceed with the formal business of the Meeting to vote on the Resolutions.

The Board and Management are happy with the progress made in the 2018 financial year. Key highlights included:

- The group delivered a full year revenue result of \$72.6m, up 12.6% year on year. Revenue growth accelerated throughout the year with the second half achieving a growth rate of 25%

- We reached profitability during the second half of the year – a critically important milestone for the company
- The year ended with \$9.9m in cash with zero debt, which represents net cash flows of +\$1.2m and;
- CEO Mark Coulter entered into a new permanent contract which is heavily weighted towards longer term, share-based incentives.

In short, the business is in a great position. We are growing strongly, we are profitable, and we have security of leadership.

I'd like to take this opportunity to acknowledge the hard work and dedication of Mark and his management team and extend my thanks to my fellow Directors Sue Thomas and Conrad Yiu and Company Secretary, Mike Egan for their contribution.

On behalf of the directors of the Group, I would also like to thank you, our shareholders, for your support and contribution during this transformative period. While the business has undergone significant and rapid change, we continue to be the leading online retailer in our market and are best positioned to capture the growth of our category over the coming years.

CEO Address

Thank you Stephen and good morning everyone.

The headline message is that the 2018 financial year was a great year for Temple & Webster. It was the year which saw the completion of our turnaround and a move back into growth mode. The work to simplify the business by moving from a multi-brand to a single-brand model with all operations run under the Temple & Webster brand is now complete. This has led to a simpler, more efficient business. It also allowed us to focus on our vision of making the world a more beautiful place, one room at a time, by improving our core customer offering of having the largest range, combined with the most inspirational content and the best customer service and delivery experience.

Along with the key financial highlights that Stephen mentioned, we made significant improvements on our margins and cost base. Highlights included:

- Gross margin improved to 44.2% (up from 42.7% from the year before) due to improving terms with our suppliers as we scale our growing private label division
- Delivered margin improved to 31% (up from 27.6%) as we implemented changes on how we charge and are charged for shipping
- Our customer service costs reduced as we saw the full year impact of offshoring the bulk of our customer care function. The great news is that we are still winning awards for our level of

customer service post this project

- We reduced our marketing as a % of sales down to 11.2%, due to better use of data, more targeted marketing initiatives and a higher repeat order rate

In addition to improving our margins, we strengthened the Temple & Webster customer offer. Key initiatives included:

- Launching visual search functionality, allowing our customers to search our massive catalogue by simply taking a picture using their phone. This technology was developed in partnership with a US based Artificial Intelligence expert and is a market first for our category in Australia
- Creating our own premium paint range, Colour by Temple & Webster, in partnership with PPG (owners of the Taubmans brand)
- Continuing to expand our private label range with a focus on improving our outdoor range this summer
- Successfully launching our first branded Temple & Webster truck, delivering bulky orders to our Melbourne customers
- Implementing product recommendations on all our product pages, allowing customers to easily find other similar looking products which has helped drive improvements in both conversion rate and basket size
- I would also like to make mention of a special partnership we entered into during the year with Women's Community Shelters, a provider of crisis accommodation for women and their children. We were pleased to furnish and style their latest shelter in Sydney, and it's a small way that we can give back to the community.

So - as you can see - it has been a busy and very productive year.

Market Fundamentals & Housing Market

It's worth reiterating that the investment thesis for Temple & Webster remains strong. We operate in a ~\$13 billion market for furniture and homewares and while the Australian online retail market continues to grow, it remains underpenetrated compared to other markets. This is especially true in our sector, with Euromonitor estimating that only ~4% of Australia's category sales are online (vs 14% in the US and UK).

We continue to keep an eye on the softening housing market. While the broader furniture & homewares category may be impacted by these market conditions, we remain confident that online penetration of the category will continue as the oldest millennials turn 35 this year and enter into Temple & Webster's core customer demographic of 35-55 year olds. Millennials have grown up with the internet and already make a significant number of their purchases online in other categories such as fashion and home electronics, and we expect this behavior to continue for our category, regardless of what happens in the broader housing market. We also expect to benefit from a customer shift towards more value-based retail offers,

and Temple & Webster's positioning around affordable beauty offers great value to our customers.

Where to from here?

Range Expansion: Core to our strategy is to grow our already market leading range. We will be looking to expand our range in all of our key categories and add to our new offerings around DIY and small appliances. We will also be expanding our private label offering in key furniture and homewares categories to improve margins and to continue to differentiate our offering.

Brand awareness: We have a big opportunity to grow our brand awareness. The majority of shoppers in Australia have not heard of Temple & Webster - yet. While our preference is for measurable and data-driven digital marketing channels, we will also look at a broader channel mix, ensuring our cost per customer and ROI metrics stay world class.

Data & Personalisation: We believe that one of our strategic differentiators as a category leader will be the immense data that we are capturing about how customers are interacting with us. We are already using this data to inform our own inventory buying decisions and we also use it to personalise marketing offers for customers. Next steps include personalising the site experience itself to help customers find what they are looking for more easily which will drive conversion and repeat purchasing.

Innovate our offer: This year we will be launching "shop the look" functionality, making use of our extensive back catalogue of original content and helping customers to recreate specific looks in their homes. We are also working on a mobile app, which will be targeted to the home lover and frequent category shopper. After the successful implementation of product recommendations on our product page, we will be trialing complementary product upsells at different touch points with our customers to increase average order size and repeat purchase.

Delivery experience: After a successful first phase of the pilot of our Temple & Webster branded bulky delivery service, we will be expanding the trial to more of Melbourne before launching in Sydney. We continue to learn from the pilot and believe solving pain points around bulky delivery is an important part of our customer experience.

Inspiration & Advice: We will continue to invest in our inspirational content and service offerings. Key initiatives this year include AR and VR which we see as an important future trend; launching an e-decorator service that is free for customers who spend a minimum amount with us; and launching our first by appointment design studio for customers undertaking a project to obtain advice from us in person.

International: We have been working on our first foray into an international market, New Zealand, through the TradeMe platform. We are currently in test mode and expect to go live 3rd quarter of this year. Marketplaces provide a relatively low risk way of entering new markets, and we believe Temple & Webster’s range and content experience is an offering which should work in other markets.

Trade & Commercial: Our B2B division continues to grow strongly as we add sales staff and enter new customer segments. The major initiative for this division this year is to open our first by appointment showroom for our Trade & Commercial customers in St Peters, Sydney. This showroom will have our best-selling Trade & Commercial products along with a design consultation area for our sales team to meet their clients.

Trading Update

The 2019 financial year continues to trade strongly. Year to date trading (to Nov 22) is up 39% year on year. The business continues to trade profitably as we maintain our contribution margin within our target range of 16-17% during this growth phase (our contribution margin is our margin after all of our variable costs including our marketing costs and customer service costs).

We remain confident in our stated goal of FY19 being our first full year of profit. We also remain committed to our strategy of reinvesting for the future to ensure we are the brand that Australians first turn to when shopping for their homes.

Team

I would like to take a moment to say a big thank you to the hard working and dedicated Tempsters. It’s been a big couple of years, and the whole team should be proud of what has been achieved. We have come through the turnaround a stronger, more focused business – and we are now in the enviable position of being a profitable market leader, in a growing market, with the resources to continue to make Temple & Webster better than ever.

Most importantly, I would like to thank our customers who have supported Temple & Webster and remained loyal to the brand through this period. We’re proud to have helped make your homes and work spaces even more beautiful over the last year, and we look forward to continuing to do so in the years to come!

Thank you.

For further information on this announcement, please contact:

Melissa Shawyer, PR Group

M: +61 (0) 412 066 048

melissa@prgroup.com.au

About the Temple & Webster Group

Temple & Webster is Australia's leading online retailer of furniture and homeware. The Group's vision is to make the world more beautiful, one room at a time.

Temple & Webster has over 125,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model, whereby products are sent directly to customers by suppliers thereby enabling faster delivery times and reducing the need to hold inventory thereby allowing a larger product range. The drop ship range is complemented by a private label range which is sourced directly by Temple & Webster from overseas suppliers.

The Temple & Webster Group is headquartered in Sydney, Australia and is listed on the Australian Securities Exchange under the code TPW.