



15 February 2019

Baby Bunting Group Limited (ASX: BBN)

FY2019 Half Year Results

STRONG SALES AND PROFIT RECOVERY SUPPORTING ONGOING GROWTH

- Total sales of \$177.7 million, up 17.2% on the prior corresponding period (pcp)
- Strong comparable store sales growth of 9.5%
- Gross margin up 160 bps to 34.6% (pcp: 33.0%) Gross profit income up 22.9% at \$61.5 million
- Pro forma¹ EBITDA of \$11.6 million, up 25.0% (pcp). Statutory NPAT was \$5.2 million, up 27.8% (pcp)
- Return on average funds employed (ROFE²) of 17.6%
- Fully franked dividend of 3.3 cents per share
- FY19 EBITDA guidance (unchanged) expected to be in the range of \$25 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 27 weeks to 30 December 2018 of \$5.2 million. On a pro forma basis, net profit after tax was \$6.0 million.

In commenting on the result, Baby Bunting's CEO and Managing Director, Matt Spencer said: *"I am proud of our first half performance. We started the year in unsettled trading times with major competitor disruption and Toys R Us / Babies R Us in administration. As a Team, we developed a plan to capture market share, stabilise gross margin and invest in our business to support the future growth opportunity. With great focus, we have achieved what we needed to do, and at the end of the half we have seen strong market share growth and a recovery in gross margins back to levels that support our ongoing growth strategy."*

"We continue to expand our store network and we are now at 52 stores, including our first shopping centre format launched at Chadstone, Victoria. Our investments in digital are delivering real results, with online sales increasing by over 60% in the half. And we have been making significant investments in our people through our store team leadership program and additional Support Office roles to support our growth strategy."

Business performance

Baby Bunting's pro forma EBITDA was \$11.6 million, up 25.0% on the prior corresponding period. On a statutory basis EBITDA was \$10.7 million, up 26.9% on the prior corresponding period.

Sales and gross margin

Our growing market share saw total sales grow by 17.2% to \$177.7 million and total transactions up 14.2% (against the prior corresponding period). There was strong comparable store sales growth of 9.5% in the period.

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 1H FY19 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.



Gross profit increased 22.9% to be \$61.5 million. Gross profit as a percentage of sales increased 160 basis points (bps) to 34.6%. This gross profit margin recovery has come about due to continued increases in direct overseas purchasing, supply chain improvements and further expansion of private label and exclusive products. Gross profit margin is expected to improve to be around 35% in FY19.

Private Label and Exclusive Products

For the half year, 25.3% of total sales came from private label and exclusive products (up from 18.4% in the prior corresponding period and 23% in 2H FY18). The Company has a long term target of 50% of total sales from private label and exclusive products.

Digital and online

Online continues to be the Company's largest trading unit with online sales being 11.5% of total sales for the period, an increase of 61% against the prior corresponding period (where online sales were 8.4% of total sales). Click and collect sales grew 97% in the period and in areas where Baby Bunting has a store click and collect sales now represent 47% of online sales in that area. Again, this demonstrates the role that stores and online can play in driving complementary sales growth.

Operating expenses

Pro forma cost of doing business for the half year was \$49.9 million, representing 28.1% of sales and an increase of 120 bps on the prior corresponding period. Overheads (excluding employee equity incentive expenses) were 5.8% of sales, reflecting investment in new Support Office roles to support growth, annualising of roles from the prior year and one off costs including consultancy work on branding and loyalty initiatives and the commencement of the store management leadership program.

Store roll-out

Baby Bunting opened five new stores during the year, bringing the total number of stores to 52. New stores were opened at Toowoomba, Chatswood, Hobart, Bankstown and Chadstone. Additionally, the existing Cannington store was relocated to a more prominent location in Cannington at the end of its lease. The new Cannington and Bankstown sites were some of the top performing Toys R Us / Babies R Us locations.

Baby Bunting expects to open one further new store in FY19 at Shellharbour, NSW.

Dividend

The Board has announced an interim fully franked dividend of 3.3 cents per share (equivalent to approximately 70% of the Company's 1H FY19 pro forma NPAT).

The record date is Friday, 1 March 2019 and the dividend payment date is Friday, 15 March 2019.

Outlook

Year to date trading (to 14 February 2019) has seen comparable store sales growth of 8.7% and total sales growth of 17.9%.

The Company expects FY19 EBITDA to be in the range of \$25.0 million to \$27.0 million, representing growth of around 34% 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;
- gross margin to be approximately 35% in FY19; and
- a total of 6 new stores opened for the year (5 new stores have opened in the first half).



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, 15 February 2019**.

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	6268 959#

Further information and enquiries

Darin Hoekman
Chief Financial Officer
email: darinh@babybunting.com.au
Phone: 03 8795 8100