14 February 2020

FY20 half year results release

1H DELIVERS STRONG PROFITABILITY GROWTH. MOMENTUM BUILDING INTO 2H

- **Total sales of $186.4 million, up 8.1% on the prior corresponding 26-week period (pcp)**
- **Comparable store sales growth of 1.0% with underlying comparable store sales growth of 4.1%[1]**
- **2H comparable store sales growth at 5.7%**
- **Gross margin up 223 basis points to 36.9% (pcp: 34.7%). Anticipated to reach 37% in FY20**
- **Pro forma[2] EBITDA of $14.3 million, up 21.7% pcp**
- **Pro forma NPAT was $7.5 million, up 30.6%. Statutory NPAT up 1% to $4.8 million**
- **Fully franked interim dividend of 4.1 cents per share (1H FY19: 3.3 cents)**
- **FY20 pro forma NPAT guidance of $20 million to $22 million remains unchanged**

Baby Bunting's CEO & Managing Director, Matt Spencer said: *"Our results for the first half reflect continuing profitability growth and significant progress on a number of our operational objectives for the year. We grew our store network, delivered sales and market share growth, and achieved improved profitability. At the same time, we continue to invest in business transformation to build capability for future growth."*

Business performance

Baby Bunting Group Limited (Baby Bunting or the Company) today reported statutory net profit after tax of $4.8 million for the 26 weeks to 29 December 2019. On a pro forma basis NPAT was $7.5 million. Baby Bunting's pro forma EBITDA was $14.3 million, up 21.7% on the prior corresponding period.

Sales growth

Total sales were $186.4 million in the half, representing growth of 8.1% (pcp).

Comparable store sales growth was 1.0%, noting that the business was cycling 9.5% in the prior corresponding period. Comparable store sales principally reflected the short-term effect of sales re-direction arising from the opening of four stores in Sydney and one in Melbourne. Adjusting for this sales re-direction, underlying comparable store sales growth was 4.1% for the half.

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1 Underlying comparable store sales growth excludes the short-term effect of sales re-direction from the recent opening of five new stores in the Sydney and Melbourne. See page 8 of the 1H FY20 Investor Presentation.

2 See "Comments on reporting" for details of how EBITDA and pro forma results have been prepared.

The second half has started strongly both in-store and online, with comparable store sales growth of 5.7% in the first 6 weeks of the half and year-to-date comparable store sales growth is now 2.0%.

Gross profit and gross margin

Pro forma gross profit for the half was $68.9 million, an improvement of 15% on the prior corresponding period. Gross profit margin has improved by a substantial 223 basis points to be 36.9%, with further anticipated gross profit margin improvement in the second half which should see 37.0% gross profit achieved for the full year.

The gross profit margin improvement has been achieved without compromising value to the consumer. It is a continuation of the strategy that has been in place for a number of years. It is an outcome of working with our supplier partners on range improvements, further improvements in trading terms, optimising supply chain opportunities and increases in direct import volumes. There has also been significant growth in the Private Label and Exclusive Products range. Baby Bunting will continue to drive these initiatives into the future.

Private Label and Exclusive Products grew 52% to be 35.5% of total sales compared to 25.3% in the prior corresponding period. Baby Bunting had a target of 35% for the full year and is tracking well to achieve its long-term target of 50% of sales coming from private label and exclusive products.

Operating expenses

The cost of doing business (on a pro forma basis) was 29.3% of sales in the first half. Store expenses increased by 50 basis points, reflecting costs associated with new stores in premium locations and wages. Overheads increased by 90 basis points, reflecting the incorporation of our Baby on Board services businesses, the investment in roles in warehouse, Customer Care contact centre, services and IT.

Digital and online

Online sales (including click & collect) grew 10.5%, making up 11.7% of total sales. Click & collect is around 45% of all online sales in catchments where Baby Bunting has a store.

We launched a new website platform in July 2019. As previously reported, the project experienced technical and stability issues which impacted the customer experience and constrained online sales growth. The decision was made to roll-back to the old website in November to further analyse and address conversion and customer experience issues. Since roll-back, online sales (including click & collect) have stabilised with growth of greater than 20% since November.

Store network

We opened three new stores in the first half, being Westfield Doncaster (Vic), Wetherill Park (NSW) and Casula (NSW). There are now 56 Baby Bunting stores around Australia. Over the last few years, we have had a target of 80 plus stores around Australia.

We are in the final stages of completing our latest network plan. This network plan will incorporate recent developments, including the addition of our new shopping centre store format, the improved store trading performances, Baby Bunting's improved market share since changes in the competitor landscape and any changes in Baby Bunting's addressable market and the broader retail market.

Progress on transformation projects

In the FY20 and FY21 periods, Baby Bunting is making significant investments in transformation projects to support future growth. Transformation projects being progressed include:

- the implementation of our new brand across the business;
- the development of a new loyalty program which is anticipated to launch in early FY21;
- an expansion of our Baby on Board services business and ancillary services;
- a new merchandise planning and forecasting system; and
- as part of our supply chain strategy, we will be moving to a new purpose-built DC in Dandenong South to replace the existing facility which is expected to go live in the second half of FY21.

Coronavirus (COVID-19) update

Baby Bunting sources products, either directly or through distributors, from China. The effect on Baby Bunting arising from the coronavirus outbreak in China cannot yet be readily determined.

Baby Bunting ended the first half with relatively high levels of stock, having built up levels towards the end of the year having regard to the Chinese New Year factory closures (which occurred earlier in the calendar year than in prior periods).

At this time, we expect to have sufficient stock to support the business. We continue to monitor developments and are working closely with our suppliers to ensure supply is maintained.

Dividend

The Board has announced an interim fully franked dividend of 4.1 cents per share (FY19: 3.3 cents per share).

Comments on reporting

The Company has adopted AASB 16 *Leases* for the first time for FY20. The Company has applied the full retrospective method of adoption and prior year comparative financial information has been restated. Note 2(c) to the Financial Report for the half year ended 29 December 2019 contains further information on the effect of the adoption of AASB 16.

To aid comparisons with prior periods, references to EBITDA results for the current period and prior periods are measured under the old lease accounting principles (ie without applying AASB 16).

Pro forma financial results have been calculated to exclude the impact of non-cash employee equity expenses and significant transformation project expenses. See the Directors' Report for the half year ended 29 December 2019 for further discussion.

The first half of FY20 was the 26 week period ended 29 December 2019. The previous corresponding period was the 27 week period ended 30 December 2018. To enable comparisons between the two periods, the revenues and expenses from the additional week of trading in 1H FY19 has been excluded to arrive at a 26 week period.

Outlook

Comparable store sales growth for the first 6 weeks of 2H was strong at 5.7% including online sales growth of 22%. This has seen comparable store sales growth rise to 2.0% year-to-date.

The FY20 earnings guidance remains unchanged. The Company expects FY20 pro forma NPAT to be in the range of $20.0 million to $22.0 million. Pro forma EBITDA (as measured under the old lease accounting standard) is expected to be in the range of $34.0 million to $37.0 million, representing growth of 25% to 36%.

The guidance assumes comparable store sales growth to be low to mid-single digits for the year, gross profit margin to reach 37% for the full year and the opening of one new store in 2H FY20. It also assumes no significant disruption from the coronavirus.

This outlook is provided subject to the important notice regarding forward looking statement in the half-year results presentation released to ASX at the same time as this update.

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Investor conference call

A presentation and a discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.15am (AEDT)** on **Friday, 14 February 2020**.

To access the call, you must register promptly by 9.15am am (AEDT) using the details below:

Australian guests	Dial: 1800 725 000
International guests	Dial: +61 2 8373 3610
Conference ID	688 4749#

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The release of this announcement was authorised by the Board.

For further information, please contact:

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