6 October 2020

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

AGM address and Q1 trading update

- **Year-to date (to 2 October) comparable store sales growth[1] of 17.0%. Excluding Melbourne metropolitan stores, comparable store sales growth was 28.5%**
- **Online sales (inc. click & collect) up 126% during Q1 FY21; excluding Victoria, online sales growth was 92% during Q1 FY21. Click & collect sales grew 233%**
- **Gross margin up 90 basis points to 37.5% to the end of Q1 FY21**
- **COVID-19 has impacted operating costs**
- **Anticipate opening 4 to 6 new stores in FY21**

Attached is a copy of the Chairman's and CEO & Managing Director's address to shareholders to be delivered today at the Company's 2020 AGM.

In the respect of the FY21 outlook, Matt Spencer, Baby Bunting's CEO & Managing Director said:

> We have seen the positive momentum in sales continue for the first quarter, which is reflective of the less discretionary nature of the maternity and baby goods category.
>
> During the first quarter up to 2 October, comparable store sales growth including online was 17.0%. Excluding the Melbourne metropolitan stores, comparable same store sales growth remain very strong at 28.5%.
>
> All our Victorian stores have remained open, however sales in the Melbourne area under stage 4 restrictions have moderated under the lockdown.
>
> Online sales growth year to date is 126% versus the same period last year, driven by a 233% sales growth in click and collect. Excluding Victoria, online sales growth – including click & collect – was 92% against the same period last year.

1. Total sales generated from stores (including the online store) open at the start of the prior financial year.

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We continue to see an improvement in gross margin which is up 90 basis points for Q1, at 37.5%.

We have also seen an increase in COVID-19 related costs, whether that be direct costs such as cleaning and general operating costs. But there has also been increased costs due to channel switching and impacts on the supply chain in relation to freight, storage and handling.

We anticipate opening between 4 to 6 stores this financial year with three new stores opening in the first half of the year.

As highlighted, the COVID-19 pandemic continues to create great uncertainty, as evidenced by the current trading conditions and the future impact on the economy.

Accordingly, FY21 earnings guidance cannot be given at this time.

The release of this announcement was authorised by the Board.

For further information, please contact:

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CHAIRMAN'S PRESENTATION

Before we move to consider the items of business, I wish to say a few words about the 2020 financial year and the Company's strategy.

The 2020 financial year

Baby Bunting achieved extraordinary things this year as we continued to provide essential maternity and baby goods and services to Australian parents and parents-to-be in some very challenging circumstances.

And I want to thank our wonderful Baby Bunting Team Members who have worked incredibly hard during the year.

I would like to acknowledge the support of our suppliers and other partners. These are critical relationships for Baby Bunting. Our ability to successfully trade through the period impacted by COVID 19 was greatly assisted by their support.

I thank our strong Baby Bunting management; from our leadership teams in our stores, through to our Team Members in the Store Support Office and in the Distribution Centre. A lot was asked of you this year and you all worked hard to ensure that Baby Bunting continued to operate safely and profitably, while also progressing the Company's business transformation agenda.

And finally, again, on behalf of the Board, I thank our Team Members throughout Australia for their hard work and dedication. As a mark of our appreciation, in the coming weeks, we will be providing eligible Team Members with $1,000 of Baby Bunting shares under our Employee Share Plan Gift Offer. This is the sixth year in a row where Team Members have been able to receive Baby Bunting shares, with the result that more than half of our nearly 1,300 Team Members are Baby Bunting shareholders.

FY20 pro forma results summary

In FY20, we continued to perform strongly and grow market share.

We achieved positive comparable store sales growth, gross margin improvement and retail cost leverage while also maintaining prudent working capital management resulting in zero debt and $13.3 million cash in the bank at the end of the year.

Total sales were $405.2 million, up 11.8% on the prior corresponding 52-week period. Comparable store sales growth was 4.9% – this was 1.0% in the first half and 10.5% in the second half. Pro forma earnings before interest, tax, depreciation and amortisation were $33.7 million. This was 24.1% up on the prior corresponding period. Pro forma net profit after tax was up 34.1% to end the year at $19.3 million.

This was a very pleasing result in some challenging circumstances and reflects the strength of the brand and the dedication of our Team.

Matt will talk more about the 2020 financial year shortly.

The Company paid total dividends of 10.5 cents per share fully franked for the year. This was an increase from 8.4 cents for the prior year. Importantly, the Company did not receive any JobKeeper payments.

Growth strategy – grow market share

The Company's strategy to grow market share remains a key focus. The four key elements are:

- First, investing in digital to deliver the best possible customer experience across all channels and enabling new business models.
- Secondly, investing to grow market share from our core business.
- Thirdly, growth from new markets.
- And finally, to continue to pursue profit margin improvement.

Baby Bunting again made good progress in achieving its strategy and the growth in total sales and comparable store sales is evidence of its success.

We are an omni-channel retailer with Australia's leading baby goods website and we now have 57 stores around Australia. Online sales through our digital channel – which includes click & collect sales – grew 39% to make up 14.5% of our total sales for the year. Our digital channel also supports and complements our network of bricks and mortar stores.

Our services business – Baby on Board – also grew significantly during the year. Car seat installation grew 42% during the year, which demonstrates the opportunities we have to grow market share from our core business.

The new brand was a key highlight for the year. The new brand reflects our brand essence and what we are known for. The brand has been really well received by our customers and I have no doubt that this brand will stand alongside other national and international brands as we expand across different formats and new territories.

Building the Best Team

To support our ongoing growth strategy, we continue to make investments in building the best team.

In addition to the team led by Matt Spencer, and supported by Darin Hoekman, the leadership team was expanded during the year to include Scott Teal, as Chief Operating Officer; Sarah Serle, our new General Manager of Merchandise; Rod Williams, as General Manager of Digital; Matt Rodda as General Manager IT and Transformation and Stu Chard as Executive General Manager Strategy.

It's a great team with deep retail, operational and strategic experience.

Baby Bunting's values

Baby Bunting is a values driven organisation and we continue to examine ways in which to live our values.

A fundamental priority is keeping our team safe. And that was a big focus for the year.

In terms of our measurable objectives for gender diversity, good progress was made across the business. At the senior manager level at the end of the year, 27% of roles were held by women – which is an increase from 22% in the prior year. At the Regional Manager and Area Manager level, 44% of our team in these roles are women – up from 22% and almost at our target of 50%. And more broadly, seventy percent of our managers across stores, areas and regions are women – an increase from 58%. We continue to work towards our objectives in this area.

Our Annual Report describes the support we have provided to a number of organisations who assist parents of newborns and young children, including Life's Little Treasures Foundation. We remain committed to providing that support.

We also released our first Modern Slavery Statement in August. This statement describes Baby Bunting's ethical sourcing procedures and our efforts to ensure that we are supporting improvements in our supply chain. We are committed to working with our suppliers in the coming years to ensure we are doing what we can to reduce modern slavery risks.

Remuneration

During the year, the Board made some refinements to the Company's remuneration practices following a review. Among other things, this involved remuneration specialists at Ernst & Young undertaking benchmarking exercises and an analysis of the Company's current remuneration mix. Following the review, the Board made some enhancements which are detailed in the Remuneration Report.

The key changes involve seeking to adjust, over time, the remuneration mix for key management personnel to reduce the proportion of "at-risk" remuneration represented by long term incentives. This will be achieved through reducing the number of rights granted annually.

The Board believes that long term incentives in the form of performance rights are very appropriate incentives given the Company's stage of development and the significant growth that is being targeted in the years ahead. In the coming years, the Board will reduce, over time, the proportion of rights outstanding relative to the Company's total issued capital. The target is for outstanding rights to be around 5% of issued capital.

A number of other changes are described in this year's remuneration report.

Given the Company's strong earnings and TSR performance since listing, the Board considers the current structure provides an appropriate incentive for the Executive team which is aligned with the returns provided to shareholders, over an appropriate period of time.

The Board

Turning to the Board.

In addition to its normal activity, this year a key focus for the Board was monitoring and overseeing the Company's response to the COVID-19 pandemic. To facilitate this, the Board established an additional Board Committee, which met on short notice throughout March, April and May, in addition to the scheduled Board meetings. The Board continues to monitor management's COVID-19 response plans and the strategic planning underway to take advantage of opportunities in the coming period and beyond.

Today, Gary Levin and Donna Player are seeking re-election. I recommend their re-election to shareholders.

To close, I want to again thank all of our Team Members in our stores, our Distribution Centre and our Store Support Office who all contribute to Baby Bunting's purpose of supporting new and expectant parents in the early years of parenthood.

I will now invite Matt Spencer to provide a bit more detail on FY20. He will also provide an update on trading performance year to date.

MATT SPENCER'S ADDRESS

Thank you Chairman, and thank you all for your attendance at today's meeting.

FY20 has been anything but normal, and I would also like to start by thanking our Team and our Customers and our Board for their support during the year.

FY20 operational objectives

We approached FY20 with a set of operational objectives and a clear strategy to continue to deliver market share growth. This resulted in a set of positive financial metrics and underlying operational improvements.

We made good and steady progress with our transformation agenda despite the challenges attributable to our website disruption and the bushfires in the first half of the financial year. When COVID-19 began to affect the community, we paused our transformation program of work for what turned out to be a short period of time. We continued to achieve significant growth in GP percent in the first half, however the second half GP percent did moderate as a consequence of a shift in product mix and channel switching to online by consumers during COVID times. Having said this, an uplift of 120 basis points for the full year was a really good achievement. Our merchandise team progressed well with our private label and exclusive products growth agenda, which is a cornerstone of our approach to differentiation in the market and this does provide gross margin benefits.

Headline comparable store sales were challenged in the first half largely as a result of the strength of some of the terrific new stores opened in FY19 and some sales re-direction in the key markets of Sydney and Melbourne, our website challenges and due to the impact of the bushfires. In the second half, we were pleased by the significant sales growth and the achievement of retail cost leverage.

Of course, like every retail business in Australia, COVID-19 presented some extraordinary challenges in the second half.

To date, I am proud of our approach and our response to the pandemic. The resolve and the collaboration from the shop floor to the board room to address the difficulties presented by COVID-19 really reflects the true character of the Baby Bunting Team.

I am proud of the fact that we have been able to keep the business running, including all stores in stage 4 lockdown in metropolitan Melbourne. As the Chairman said, Baby Bunting did not receive any JobKeeper financial support.

In responding to the COVID pandemic, management has been and continues to be focused on three workstreams: first, managing our day-to-day operations; secondly, ensuring we have a sustainable business looking 3 to 6 months ahead and then; thirdly, and importantly, focusing on recovery and progressing strategic opportunities. Today we continue to manage to this plan.

COVID-19

There is no doubt that FY20 and FY21 will be remembered for the impacts of the COVID-19 pandemic. I will try and provide some commentary on its impacts on Baby Bunting to date.

Supporting our Team

As I have mentioned before, our Team has done an amazing job. We have provided support to our Team by introducing a paid pandemic leave policy providing all employees – including casuals – with paid leave to cover up to 2 weeks of work. We want our team to be confident that they can get tested when they need to and stay at home while they await their results, without having to worry about coming to work during that period.

To show our appreciation for the efforts of our Team, we have provided them with financial gifts, additional leave and – as mentioned by the Chairman - the opportunity for eligible Team Members to receive $1,000 worth of Baby Bunting shares through our employee share gift offer. We thank and appreciate the ongoing efforts by all members of the Baby Bunting family.

Operational impacts

Our ways of working and our entire operating rhythm and processes have changed during this crisis, to ensure the safety of our Team, our customers and the community in which we operate.

The challenges attributable to COVID-19 were spread across the organisation, as it impacted:

- supply from China;
- international shipping;
- created some short run panic buying of consumables; and
- logistics companies struggled to keep up with demand for online shopping.

We made changes to forward purchasing that has impacted some stock availability given the significant sales uplift.

To manage the operational challenges associated with the emergency, we incurred around $500,000 in extra costs in FY20 and COVID-related costs have continued on in the current financial year.

Changes in consumer behaviour

What we have seen during periods of public health restrictions is that there was an increase in sales in products for the home with a reduction in travel related categories, such as car seats and prams, etc. Outside of significant restrictions, these trends have reversed and we have seen sales in our travel related categories rebound strongly.

As a result of the pandemic, our customers' shopping behaviours have changed; not only what they shop, but how they shop, with many switching channels or choosing different ways to shop.

We continue to see channel switching between online and bricks and mortar stores especially in Victoria which has had ongoing restrictions. Nevertheless, while a customer may choose to shop online, there is a significant preference by our customers to interact with our stores leveraging our touchless click and collect facility. Around 50% of online sales in a catchment where we have a store end up as a click and collect transaction rather than click and deliver transaction.

Looking at the first quarter performance we can see that in May and June around 84% of sales took place in our stores which rises to around 90% when you include click and collect transactions; which is a trend that has continued in Q1 for Australia (excluding Victoria). In Victoria, in Q1, online and click and collect orders made up around 30% of sales.

Interestingly, what we are seeing is ongoing strong growth in the online channels, especially click and collect. Click and collect has grown 233% and online delivery only sales have grown 83% against the prior corresponding period. If you exclude Victoria, click and collect has grown 204% and online delivery only sales have grown 54%.

Online performance returns

The channel switching that we did see at certain times in 2H FY20 needs to be looked at in the context of our digital strategy. Our multi-channel retail experience is delivering sales growth.

In FY20, online sales – including click & collect – were around 14.5% of total sales. The trend in online sales growth continues and in Q1 FY21 we have seen online sales of 20.9% of total sales. If Victoria is excluded, we saw online sales of 17.7% of total sales.

We are seeing increasing website visits, and the conversion rate is up 77 basis points during the first quarter, noting that this is cycling the website performance issues that were present in 1H FY20.

Delivering Great Range at Low Prices Everyday

Our focus remains on offering the widest range of products at great value everyday, backed up by great service every day and every visit. That is why we have committed to a price beat guarantee where we offer to beat any competitor's prices by 5%. This has given the consumer even more confidence in the value of our offer.

Our strategy to achieve the balance of great value everyday and to also continue to grow gross margin is supported by our investment in our private label and exclusive product ranges which made up 36.5% of sales in FY20, a growth of 47.9% on the prior corresponding period. Year to date in FY21, Best Buys or EDLP products, make up around 27% of sales versus 24% for the same period last year. Pleasingly, year to date FY21 our private label and exclusive products make up around 38% of total sales compared to around 33% for the prior corresponding period; this is a significant achievement. Our goal remains to achieve 50% of sales coming from private label and exclusive products.

In FY20, we continued to see a significant improvement in Gross Profit, up 120 basis points to 36.2% and our focus on delivering value to the consumer remains at the centre of our offer.

Competitive landscape – our market expansion continues

Turning our attention to the addressable market and the competitive landscape in which we operate.

Our market share of the $2.4 billion addressable market continues to grow, and in FY20 we welcomed many new customers to our business.

We are the only specialist maternity and baby goods retailer operating on a national basis.

Growth from new markets

As the Chairman outlined, an element of our strategy is to deliver growth in new markets.

In FY20 we undertook a review of our potential store network plan with the assistance of third-party network planners. We do this kind of review every two or so years to test the appropriateness of our existing store roll out plans and to explore whether other opportunities for network expansion exist.

Pleasingly, given our progression and growth in market share coupled with our improvement in store profitability, our network plan has been upgraded from 80 plus stores to 100 plus stores across a number of store formats. We will continue to focus on our rigorous ROI hurdles when recommending new store opportunities to the Board. Clearly, our network plan guides our efforts in building out the store network; as a matter of course, it will necessarily respond and adapt to changes in consumer behaviour and retail trends over the coming years.

It's important to note that over 90% of sales in areas where we have a store are either in-store purchases or click and collect transactions. This highlights the role that our physical stores play in meeting the needs of our customers.

Our shopping centre stores (pre-COVID-19) were tracking very well and we are looking at various other format opportunities, outside our traditional destination and regional store formats.

We have a strong pipeline of stores to open in FY21: Westfield Knox opened in mid September, Castle Towers in Sydney and Coffs Harbour in NSW both will open in Q2 and Belconnen in the ACT is expected to open in Q3. There are additional opportunities being assessed for Q4 and into FY22.

New Zealand

As we mentioned back in August, during the fourth quarter of FY20, we spent time developing the capability to ship product from Australia to New Zealand. To achieve this, we launched a New Zealand store front on our Australian website. Leveraging digital marketing including social media, we started marketing to New Zealand consumers with a tailored offer. This cross-border trade commenced early in July. To date the results have been very promising.

In parallel with this activity, we commenced a strategic review of the New Zealand market opportunity.

Our current assessment is that the addressable market for Baby Bunting in New Zealand is around $450 million with similar market attributes as Australia.
The review, which is still underway, will determine whether we will pursue an expansion into the New Zealand market and if deemed appropriate, in what form that would take.

At this stage, our review involves a deep dive into understanding the New Zealand consumer in our category, what a potential store network plan may look like if we were to pursue a bricks and mortar strategy, and what the economics would need to be if we were to pursue the opportunity.

We will continue to spend some time finalising the strategic review with a hope of being able to form a more informed longer-term view on the opportunity in New Zealand.

<u>Transformation – investing to grow</u>

Our business transformation agenda is significant in scope and we made some exciting progress in FY20. Originally, we expected all projects to be delivered across FY20 and FY21. However, with the impacts of COVID-19, where a number of projects were temporarily paused, some projects will start later and most likely complete in FY22.

During FY20, we spent $4 million in capex, $4 million in project related expenses and wrote off $2.6 million in old brand assets. For the project related costs that flow through the statutory profit, an important point is to note these are pro forma'd out therefore do not impact dividend payments to shareholders – which are set based on pro forma profits.

In the current year, we expect to spend a further $10 million in capital and around another $4 million in project related costs. As we move to our new distribution centre and new store support office in the second half we also expect to write down $1 million in equipment and fittings that will not migrate to the new facility.

Our investment in our **services business continues**. The car seat fitting business is progressing well and now we are focussed on establishing a number of ancillary services businesses such as the nursery hire, car seat repair and building further the wholesale B2B and government business opportunities. The Team are doing a really great job in this area.

Core Systems transformation. During FY20, we implemented automated replenishment for our stores. This has transformed the inventory profile of our stores and is delivering significant improvement in stock availability and improving our inventory efficiency. We have now commenced a project to implement a merchandise financial forecasting system which will deliver greater agility in inventory planning and response, which will flow into improved margin management. This is anticipated to go live in the second half of FY21.

Planning has also commenced for us to transition to new people systems during the year, and once complete our focus will move to conducting a broader review of our financial systems to be completed later in the year.

We progressed our investment in **data and analytics** as we built out our utilisation of data to make better and more informed decisions. Specifically, we will continue to develop the area of retail and customer analytics that will go hand in glove with our digital and loyalty strategies. Importantly, we are looking at leveraging data to drive insights and revenue streams.

We continue to progress our new **customer loyalty program**, and it is anticipated that this will be live in the second half of FY21. We have piloted elements of the program in the second half of FY20 which resonated strongly with the customer so we are looking forward to seeing the impact of a full roll-out later in the year.

Supply Chain Strategy

I would like to elaborate more about our **supply chain strategy** and the role it plays in profit margin improvement and specifically gross margin improvement in our business.

During the pandemic, we have rapidly expanded capability to fulfil online orders from multiple locations, through Hub stores and through other stores in our network. This is a major step towards our goal of fulfilling 90% of metro deliveries same day. This is also a key differentiator from others in the market. During FY20 we opened our fulfilment hub store in Casula in Sydney which was fulfilling close to 50% of all Sydney metro online orders. We also have hubs in Western Australia and Tasmania doing similar numbers.

During FY21, we will be relocating to a new larger distribution centre which will be able to support further growth covering new stores, increases in private label and exclusive products and further direct imports. It will also reduce the storage and handling cost of third-party logistics facilities, all of which contribute to gross margin improvement.

Exciting times ahead

While the COVID-19 pandemic has presented some unexpected challenges and continues to do so, we remain very focused on executing on our growth strategy.

We continue to focus on the expansion of our store network and have a plan for a network of over 100 stores in various formats. We have plans to continue to expand our private label products and to introduce new private label brands in our business. Our services business will expand further from car seat installation into car seat hire and soon will be extending that into other product categories. We have commenced shipping to customers in New Zealand and are undertaking an assessment of that market.

Our website and digital performance have been strong and our investments in digital will continue through the year. We have a road map to progressively transform the technologies that drive our digital channel and the ways in which our customers can interact with Baby Bunting.

We have adapted well to the current circumstances and are responding as new circumstances arise. However, we continue to look at the bigger picture. The strategic initiatives we have talked about today, and others being developed, are designed to set the groundwork for further exciting growth in the years ahead.

FY21 outlook

We have seen the positive momentum in sales continue for the first quarter, which is reflective of the less discretionary nature of the maternity and baby goods category.

During the first quarter up to 2 October, comparable store sales growth including online was 17.0%. Excluding the Melbourne metropolitan stores, comparable same store sales growth remain very strong at 28.5%.

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Thank you.