

ASX Announcement
22 February 2022

Step One Clothing Limited 1H22 Result

Step One Clothing Limited (ASX:STP) (“Step One” or “the Company”), a leading online, direct to consumer, innerwear brand, today announces its financial result for the six months ending 31 December 2021, delivering strong performance across key metrics.

Highlights

- Revenue of \$38.1 million, 11.7% growth on prior corresponding reporting period (pcp)
- Gross margin of 83.1%, up 1.0% from 82.1%
- 45,000 5 Star product reviews
- Strong returning customer order rates
- Customer orders exceeded 488,000, up 11.9% on pcp, consistent with revenue growth
- Returning customers increased from 39% to 60% pcp
- New customers’ orders exceeded 193,000, further expanding the Step One customer base
- Website visits exceeded 7.1 million, up 41.8% on pcp with 6.3% conversion rate

Step One Founder and CEO, Greg Taylor said: “I’m delighted to announce Step One’s inaugural result as a listed company, with strong performance across key metrics. During the first half, we have continued to deliver against our growth strategy, diversifying our international footprint and launching Step One in North America. We also continued to invest in and develop our products and build our brand equity during the period: we launched a thermal range in the Northern Hemisphere in December and made a number of limited edition colour drops. A significant milestone for Step One was launching its women’s range post period end. I’m delighted with the reception so far and its initial success has validated our approach to continue to disrupt the innerwear industry, providing products to help people feel their best every day.

“In the second half of the year, Step One is well-positioned to grow.”

Key Metrics

		1H21	1H22	Variance	
				\$'000	%
Financial					
Revenue	\$'000	34,085	38,076	3,992	11.7%
Gross Margin	%	82.1%	83.1%		1.0pcp
EBITDA Statutory	\$'000	7,723	(2,529)	(10,252)	-132.7%
EBITDA Proforma ¹	\$'000	9,179	7,434	(1,745)	-19.0%
EBITDA Proforma as % of Revenue	%	26.9%	19.5%		-7.4pcp
NPAT Statutory	\$'000	4,564	(3,816)	(8,380)	-183.6%
NPAT Proforma ¹	\$'000	6,116	4,969	(1,147)	-18.8%
Operational					
Website visits	#m	5.0	7.1	2.1	41.8%
Conversion rate	%	8.1%	6.3%		-1.8pcp
Customer Orders	#'000	436	488	52	11.9%
New Customers	#'000	264	193	(71)	-26.9%
Returning customers rate	%	39%	60%		21pcp

1. Refer separate Investor Presentation for reconciliation of statutory to proforma amounts and definitions of metric calculations

Revenue grew 11.7% on pcp mainly from growth in Australia and launching in North America.

The financial result incorporates:

- Continued support for the brand from existing customers in Australia and the UK. Notwithstanding, the recruitment of new customers (particularly in the UK) fell below that recruited in the same period last year. While some of this decline reflects changing trading conditions with respect to COVID-19 and lockdowns, the efficiency (in terms of new customer orders for each dollar of advertising spend) of marketing spend also declined. This decline has been attributed to a number of factors (again, particularly in the UK), which we are in the process of resolving with changes to the advertising channel mix, refining the product positioning and expanding influencer generated content.
- Website traffic increased 41%; however, the customer targeting in the UK was cast wide and while it attracted interest from new audiences and markets, it requires more time to refine the targeting to the right customer (which resulted in a decrease in conversion rate).
- Expanding into North America with an investment of \$1.5m in advertising to establish a brand presence in that market.
- Distribution and logistics have been managed effectively throughout most of the pandemic, largely through advance ordering of product from factories, use of inbound air-freight and free express shipping to customers (additional \$1.0m on pcp). A failure in both inbound logistics and outbound distribution in November and December resulted in a short period of customer dissatisfaction and required the delay of colour releases, lost opportunity to run a Christmas gift campaign, and the delayed launch of the Women's product. A number of remedial actions are currently being implemented to improve this area, with national delivery services also returning to normal delivery times reducing the need for express delivery.

Operational Review

In the first half of FY22, Step One expanded its global business footprint, whilst navigating the logistical impacts of the COVID-19 pandemic. The key initiatives and developments during the period include:

- **USA launch:** Step One entered the US market in October 2021. So far, the product has resonated strongly with American customers. We continue to refine our marketing strategy to accommodate local marketing requirements.
- **Product evolution – pattern launches:** In the first half, the Company introduced Step One patterns to align with its limited colour release schedule. Overall, these limited edition pattern colour releases contributed 30% and 33% to revenue in Australia and the UK respectively during 1H22.
- **Thermal product launch:** Step One's thermal range was launched in December 2021 with a strong reception in the early stages of the Northern hemisphere winter season. This thermal range is the Company's first product adjacency. Thermals are sold at a higher price point to Step One's underwear range, supporting the Company's drive to increase average order value (AOV).
- **Black Friday/Cyber Monday (BFCM):** Step One had a successful BFCM period with sales up 35% on pcp and securing 34,000 new customers to the brand; however, fulfillment and delivery delays removed the opportunity to target new customers with Christmas products and gift sales, as well as causing the delay of a colour release and the launch of the women's range.
- **Logistics and inventory:** Step One encountered challenges in both the UK and Australia associated with logistics in advance of, and during, the BFCM trading period. These challenges increased customer delivery times and impacted media spend effectiveness, as well as requiring changes to colour release schedules during that period. To mitigate continued global supply chain issues, the Company has put in place measures to further increase inventory levels, specifically, order colour/prints further in advance.
- **Diversifying supply:** To support future growth, Step One has partnered with manufacturing partners in Vietnam and China, maintaining diversification of its supply chain. All facilities are aligned with Step One's ESG focus and are BSCI and SA8000 accredited with fair working conditions and wages.
- **GST Overclaim:** As disclosed in December 2021, Step One identified a potential overclaim of GST credits in prior years of \$1.4 million (pre-tax). The transactions were with a foreign corporation

registered for Australian GST supplying services in Australia. A voluntary disclosure has been made to the ATO. A comprehensive review of GST on other transactions concluded the non-compliance was restricted to this one supplier.

United Kingdom

Step One found trading conditions in the UK challenging during the period due to COVID-19 and general consumer sentiment, which deteriorated further when delivery times were not achieved. Despite this, the brand and product continue to resonate with UK customers.

The UK market has a high demand for colours and prints which will form the basis of continued product iterations going forward. The product value proposition remains appropriate; however, we are implementing improvements to other elements of the product offering to better align with local conditions.

The marketing mix going forward will have greater local reference on social media. The influencer strategy has taken longer to deploy than anticipated; however, with additional local support, is expected to gain momentum in 2H22. By having a greater focus on local content, Step One believes it can establish a greater footprint in the UK, thereby cementing the brand in the UK.

United States of America

Step One commenced selling in the USA in October 2021 and is progressing through the initial phases of market entry with the product resonating strongly with customers. However, entry to the USA will take longer than the UK and requires a more deliberate staged approach given the different market nuances.

Step One entered the market using its stage gated, test and learn methodology. This approach tested the effectiveness of a range of channels including the requirement for a greater focus on influencers and athletes d through social media and TV media.

As with the UK, the athlete and influencer channel has taken longer to deploy than anticipated; however, with additional local support, is expected to gain momentum in 2H22.

Women's launch (post-period end)

In January 2022, Step One introduced a women's line, following significant demand from Step One's existing female customers, which it estimates to be approximately 40%. The women's line is currently available in Australia and the UK. Our first women's product is a boxer short style featuring anti-chafe technology which is priced at the same level as the equivalent men's product and is available in a range of colours and sizes to suit different body types.

The launch was accompanied by a multi-platform marketing campaign, with a strong inclusive focus, in line with Step One's mission of being for everyone. Initial reception of the women's launch has been extremely successful with all products nearly sold out, with further re-stocking and additional colour launches planned during 2H22.

With the success of the testing phase of the product launch, additional quantities have been ordered to move to the scaling phase which will commence early May 2022.

The strong demand for our female product underpins the brand equity, product reputation and sets a strong precedent for additional product adjacencies.

Sports Range

Step One plans to release a men's sports range in 2022. This is a natural product adjacency, particularly given the number of athletes already wearing the existing product and excited to become brand ambassadors for

Step One.

Strong Financial Position

With the successful completion of the IPO, Step One is in a strong financial position, with closing cash of \$38.7 million and no net debt.

Cash generation is underpinned by strong operating metrics and low levels of capital expenditure. Step One has the flexibility to invest in and execute its growth strategy and has invested in a strong inventory position to mitigate future supply and shipping issues.

In the period, cash flows from operating activities were an outflow of \$5 million which included an increase in inventory of \$7.8 million.

As foreshadowed in the Prospectus, no dividend has been declared for the six months ending 31 December 2021.

Outlook

Step One reaffirms the guidance given on 22 December 2021, expecting sales revenue to grow 21-25% for FY22, with proforma EBITDA of \$15 million.

-ENDS-

This announcement was authorised for release by the Board of Step One Clothing Limited.

Investor Conference Call & Webcast

An Investor Presentation has been lodged with the ASX today, together with this announcement. Step One will host a conference call and webcast for analysts and investors at 9.30am AEDT today.

Conference call registration:

<https://s1.c-conf.com/diamondpass/10019136-wn5d87.html>

Live audio webcast registration:

<https://webcast.openbriefing.com/8399/>

About Step One Clothing

Step One is a leading direct-to-consumer online retailer for innerwear. Step One offers an exclusive range of high quality, organically grown and certified, sustainable, and ethically manufactured innerwear that suits a broad range of body types. Step One has transformed the innerwear market with an innovative design and cult-like following and has quickly grown to a multinational Company operating in Australia, the US and the UK.

Further information can be found on the Company's website <https://stepone.group/> or by contacting:

Media Enquiries

Peter Brookes

Citadel-MAGNUS

pbrookes@citadelmagnus.com

+61 2 8234 0104 / 0407 911 389

Investor Enquiries

Maddie Seacombe

Citadel-MAGNUS

mseacombe@citadelmagnus.com

+61 2 8234 0114 / 0402 999 291