

16 November 2022

Step One Clothing Limited

2022 Annual General Meeting Address and Presentation to Shareholders by Chair and CEO

Step One Clothing Limited's (ASX:STP) 2022 Annual General Meeting will be held online today.

Date: Wednesday 16 November 2022
Time: 11.00am (AEDT)
Venue: <https://meetings.linkgroup.com/STP22>

The addresses and presentation to shareholders from the Chair and the Chief Executive Officer which will be delivered at the Annual General Meeting are attached.

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

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 into a multinational company operating in Australia, the US and the UK.

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

For all enquiries, please contact:

Maddie Seacombe
Citadel-MAGNUS
mseacombe@citadelmagnus.com
+61 2 8234 0114 / 0402 999 291

Saskia West
Citadel-MAGNUS
swest@citadelmagnus.com
+61 2 8234 0109 / 0452 120 192

Address by David Gallop AM, Chair of Step One Clothing Limited, at the 2022 Annual General Meeting of Shareholders 16 November 2022

Good morning, everybody and thank you for joining us today.

My name is David Gallop, and I am Chair of Step One Clothing Limited.

On behalf of the Board of Directors, I am pleased to welcome you to Step One's 2022 Annual General Meeting – our first as a listed company.

It is now just after 11:00am, the nominated time for the AGM.

I have been informed by the Company Secretary that a quorum is present and so I am pleased to declare the Meeting open.

Today's AGM is being held virtually via the online meeting platform.

Today I am joined online by my fellow Directors:

- Greg Taylor
- Kate Thompson
- Michael Reddie
- Rick Dennis

Also present today are:

- Nigel Underwood, our Chief Financial Officer
- William Hundy, our Company Secretary
- Adam Pitts, our Audit & Assurance Partner from Auditor Grant Thornton, is also present and available to answer any questions about the audit, the auditor's report, the accounting policies adopted in the financial statements and the Auditor's independence

Our Annual General Meeting is being broadcast from Gadigal Land.

Our commitment to sustainability and ethical practice is at the core of who we are at Step One. We cannot do this without taking the First Step in acknowledging First Peoples. Step One acknowledges the Traditional Custodians of the lands, skies, and waters of First Peoples across the world. We tread respectfully on their countries and honour their continued connection to their culture for many millennia.

We acknowledge Elders, past, present, and emerging, and thank them for providing their guidance, and sharing their knowledge and wisdom, and all First Peoples who have continually paved the way in sustainable practices. Step One continues to be guided, as we learn and grow through this First Step.

The running order for today's meeting will be as follows.

STEP ONE

- Firstly, I will say a few words about Step One, including our innovative products and sustainability focus
- Then Greg will address the meeting and provide an update on recent trading before we proceed to the formal business of the meeting
- After the formal business, shareholders will have the opportunity to ask further questions not directly related to the respective resolutions.

Step One was founded to innovate the innerwear market, and our disruptive product, customer engagement model and strong ESG focus has underpinned our growth since 2017.

The fundamentals of our business remain strong: we have a significant opportunity to capture more of the global underwear market, our business is capital light and adaptable with a flexible supply chain and distribution network, and we have an abundance of opportunity for product development and adjacencies within the innerwear category.

In 2022, we expanded our range to include a Women's product, meaning we are now targeting 100% of the population – and as we've seen, the product strongly resonates with a wide range of customers.

We have a strong presence in Australia and have established ourselves in the UK. During the year we also entered the USA market, which is the biggest and most competitive consumer market in the world. Because of this we have had to modify our growth strategy and we continue to learn and adapt with each of the markets that we operate in.

Unfortunately, due to a number of circumstances, we have fallen short of our expectations outlined in our Prospectus numbers for FY22 in our international expansion plan.

Step One has had to navigate through a number of global challenges throughout this calendar year which continue today, including the continued impacts of COVID-19, sector-wide supply chain constraints and inflationary pressures, and the significant impact of tightening interest rates on consumer spending.

The Board and management team are confident in our strong customer proposition, underpinned by a nimble culture and passion for the product. Our brand remains fun, edgy and proudly inclusive.

We also remain very proud of our strong ESG progress and practices, with our sustainable credentials baked into our entire product lifecycle, from inception to delivery. We have a transparent production process, beginning with ethically grown Bamboo from responsible sources and a strict ethical manufacturing process the entire way across our supply chain. We are constantly reviewing and improving our processes to continue to take the lead in sustainability.

On behalf of the Board I would like to thank Greg Taylor, the management team and our team members across the business for their dedication to the business and efforts this year. I would also like to thank my fellow Directors for their contribution throughout the year.

I would also like to take the opportunity to thank our shareholders who have continued to support us. While I note that our financial performance has fallen short of our expectations, which is reflected in our share price, your Board continues to believe in the strength of the fundamentals of our business.

I will now hand over to Greg to provide a more detailed update on STP's financial and operational performance this year, and to also provide some colour on recent trading and the outlook for FY23.

Address by Greg Taylor, Founder and CEO of Step One Clothing Limited, at the 2022 Annual General Meeting of Shareholders 16 November 2022

Thanks David and good morning all, I'm Greg Taylor, Founder and Chief Executive Officer of Step One Clothing Limited.

I'd first like to touch on our FY22 performance, which unfortunately fell short of our FY22 Prospectus forecasts. As David outlined, we encountered headwinds as we executed our international expansion into the UK and the USA during the year, with global issues affecting costs, logistics and consumer confidence.

Despite this backdrop, our FY22 results showed increasing levels of demand for our products, our revenue grew by 17% on the prior year, and we maintained our gross margin of 82%. Proforma EBITDA was \$9.0m as headwinds grew stronger in the second half of the financial year. Despite the financial results not meeting initial expectations, we adapted to the challenges we experienced, controlled what we could and emerged as a nimbler business. We continued to make operational progress, with the release of our Women's line, the development of product adjacencies including Sports, and bringing to market over 45 colour releases.

Over 1.1m people have purchased Step One's and history shows us that once our customer puts a pair on they are likely to return for more, with over 60% of sales from returning customers. Website visits increased 65.4% on prior year, with a total of over 16.5 million visits. While the conversion rate dropped to 5.2% it still remains higher than industry averages, showcasing the Step One brand is cutting through the noise and highlighting our product's Unique Selling Points and strong brand equity.

The design of our product revolutionised the underwear market. Our underwear has very functional product features including our UltraGlyde panels, an elastic 3D pouch and organically grown Eco-Cert Bamboo.

Our business model has four core segments, beginning with the design of our product which I've just spoken to. Our marketing strategy also continues to evolve, however it remains very direct in nature, driven by in-house video content and paid social media and influencer channels. Our customer 1st approach continues to support strong customer conversion and retention, backed by our 30-Day First Pair guarantee, free shipping, a 12-month manufacturing warranty and rapid customer service response. Finally, our business model is built on a transparent production process.

While David has already touched on our ESG credentials, I want to emphasise that our strong ESG values can be seen through our entire product lifecycle.

I want to draw attention to the depth of our ESG which extends back to the FSC certified forests where our organic bamboo is grown rather than just addressing the last manufacturing step.

We included a detailed commentary on our ESG credentials in the Annual Report, and we will continue to seek opportunities to improve our ESG footprint.

Our strategy is focused on continuing to build our brand recognition and equity in all of the markets that we operate in. Our core focus is creating innovative and engaging content which provides a compelling reason for consumers to try our product and a strong focus on customer retention, which sits over 60%.

The addressable market in each of our key locations is sizeable as over 90% of people wear underwear everyday. For the men's, in the USA \$6.2bn, UK \$1.5bn, and AU \$0.6bn. We will continue to increase our market share by: investing in product designs and adjacencies, investing in our logistics and supply

STEP ONE

chain with specialists managing manufacturing and warehousing, and focusing on how we can continue to raise our brand profile, both via traditional marketing channels and partnerships such as Amazon and other opportunities.

Our Q1 FY23 trading update which we released on 28 October detailed revenue of 13.1m, 15% below the previous corresponding period, and an EBITDA of \$1.8m. As at 30 September 2022, cash was \$26m and inventory \$30m. The trading conditions in the first quarter of FY23 have been more challenging than that experienced in the first quarter of FY22 across all of our markets.

We continue to respond to challenging market conditions and apply our learnings to elevate our processes. We have invested in our capability with the recruitment of digital performance management experts and have deployed changes to customer recruitment that we expect will assist with delivering profitable growth.

Initiatives in each of our markets include:

- **Australia:** refocusing our advertising back to top-of-funnel – generating content to build brand awareness and make new customers aware of our products ahead of November/ December sales events
- **UK:** given a number of economic disruptions so far in FY23, our focus in the UK is to improve advertising impact and efficiency
- **USA:** we're continuing to reset our strategy in this market, prioritising profitability over growth

I remain absolutely confident we will find our growth paths in each country as we continue to expand.

We are gearing up for Black Friday/ Cyber Monday at the end of November, with the team focused on delivering an engaging experience across marketing channels, including limited edition colour drops throughout the weekend, to maximise impact.

As disclosed on 28 October 2022, given current market conditions we are prioritising profitability over growth. Our profitability in Q1 reflects the continuation of costs, such as COGS, distribution and transaction fees incurred in 2H22 with a reduction in advertising spend and improving efficiency.

Given the continuing global supply chain and shipping delays, it is imperative for our business to have inventory on hand to deploy to our global locations. Importantly our inventory is not seasonal or perishable. We have reduced the volume of inventory on order and expect inventory of existing product to reduce going forward.

We remain very confident in our ability to execute on our strategy despite difficult global macroeconomic conditions, Step One remains in a good financial position with strong cash on hand and a robust balance sheet.

We are continuing to strategically progress:

- Profitable growth
- Expanding the customer funnel
- Expanding our range
- Investing in capability and product innovation
- Expanding our sales channels and marketplaces
- Continuous improvement in the customer experience

Over the longer-term period we expect to deliver against our growth strategy, and we plan to continue expanding into our existing markets while testing the appetite of other markets. We will be managing

STEP ONE

supply chain pressures and warehouse and distribution costs. We will balance growth and profitability as we continue our expansion into the USA.

We plan to shortly issue approximately 2,500,000 performance rights to members of the management team in accordance with the Long-term Incentive element of the Remuneration Framework which was set out in the 2022 Annual Report.

I would like to thank our Board, the Step One team, suppliers and service providers for their commitment and support throughout the year. I would also like to thank our shareholders for their ongoing support and for their trust in our vision.

As a major shareholder, I am deeply committed to growing the business. I believe the strategies in place will position Step One well to adapt to the future and continue to grow. I look forward to updating you on our progress as we move further into FY23.

STEP ONE™

2022 ANNUAL GENERAL MEETING



16 NOVEMBER 2022

David Gallop AM, Chairperson
Greg Taylor, CEO and Founder

AGENDA

- 01 Chair Address
- 02 CEO Address
- 04 Formal business
- 05 Questions



CHAIR ADDRESS



David Gallop



STEP ONE™

CEO ADDRESS



Greg Taylor



STEP ONE™

FY22 Performance

STEP ONE™

Revenue

\$72.2m

up 17% vs pcp

Gross Margin

82.0%

down 0.6% vs pcp

Expanded markets
with USA launch
and Amazon

Expanded product
range - Women's
Line, Thermals and
Sports products
launched

Average order value (AOV)

\$75

up 0.7% vs pcp

Proforma EBITDA

\$9.0m

12.5% of revenue vs pcp

Website Visits

16.5m up 65%
vs pcp

5.2% conversion rate

Customers

1,101,000

up 52% or 375,000
customers vs pcp

Product Features

STEP ONE™

Step One underwear is design focused – with UltraGlyde™ panels, comfort pouches, and comfortable organically grown Bamboo – it has revolutionised the underwear market for all genders

3D CROTCH PANEL

- Hidden **3D Elastic Pouch** keeps 'the boys' supported
- Less skin to leg contact reduces sweat and maintains comfort
- Elastic stretches to fit any man regardless of size

BAMBOO FABRIC

- **Wicks away sweat** and has excellent breathing qualities
- Organically grown bamboo plantations (eco-cert)
- Naturally irrigated & no pesticides used during growth

ULTRAGLYDE™ PANELS

- **Reduces friction, reduces chafing** and reduces the dreaded ride up
- Ensures maximum comfort as thighs glide

SOFT AND SUPPORTIVE

- Construction from single piece of fabric
- **Luxurious feel from** breathable fabric
- Soft and supportive waistband
- No visible panty line (VPL)

Business Model

STEP ONE™

Step One is built on an innovative product and customer engagement model with a strong ESG focus

1. DESIGN

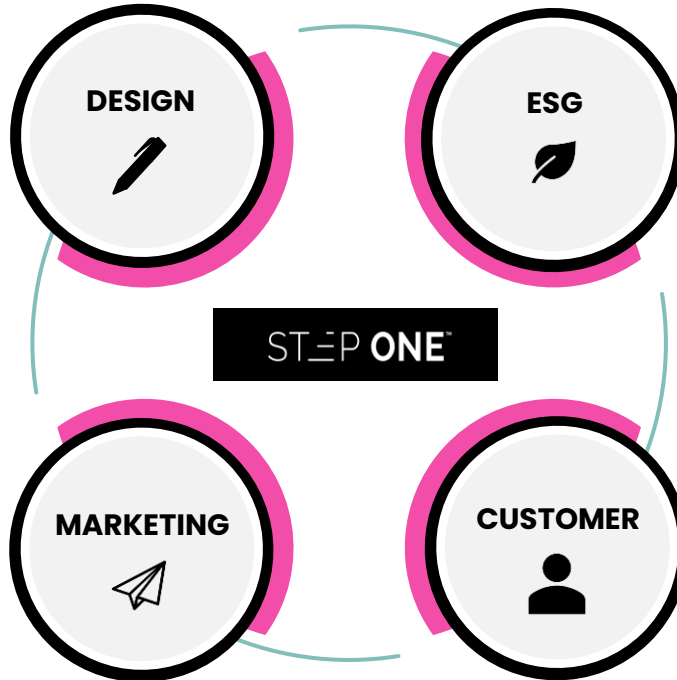
Functional Product Features

- UltraGlyde™ panels
- Elastic 3D pouch
- Organically grown Eco-Cert Bamboo

2. MARKETING

Strategic & Direct

- Marketing capability using both **in-house and locally produced** content
- Dominating & intelligent **paid & social media & influencer** channels



4. ESG FOCUS

Our business model is built on a transparent production process

- **Organically grown** Bamboo from responsible sources
- Strict **ethical manufacturing** across supply chain
- **Minimise** carbon footprint

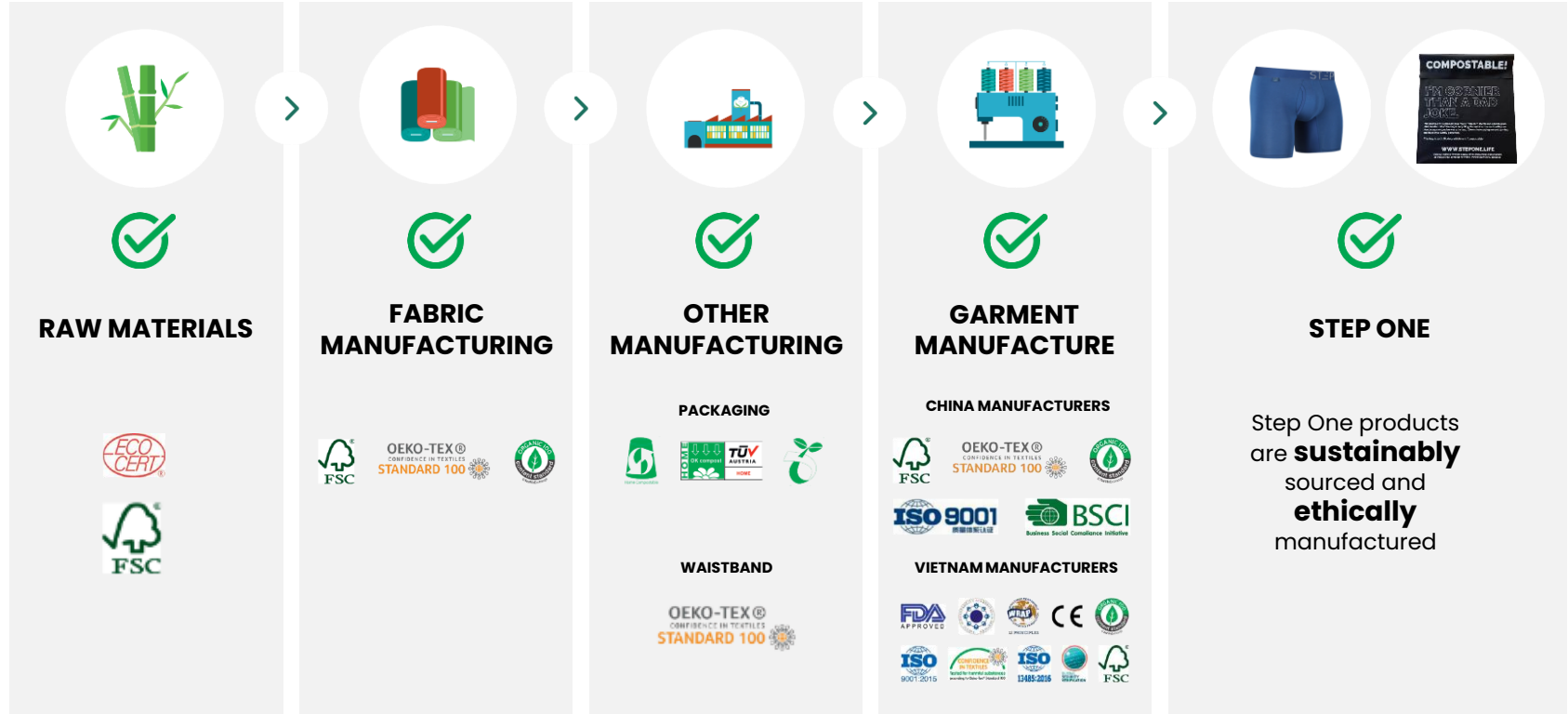
3. CUSTOMER 1st APPROACH

Strong Customer Conversion & Retention

- **30-Day First Pair Guarantee** which allows a full refund on a first purchase
- **Free shipping & 12-month** manufacturing warranty
- **Rapid** customer service response

Sustainable and Ethical Supply chain

Our ESG credentials baked into our entire product lifecycle, from inception to delivery



Forward Strategy

Driving profitable growth globally

STEP ONE™

MARKET SIZE¹

Every person needs underwear

- USA \$6.2b
- UK \$1.5b
- AU \$0.6b

That's just the men. The women's market is bigger

CAPITAL LIGHT

Low capital invested

- **Ownership of Brand**, designs, and personality
- **Specialists** manage manufacturing, warehousing and logistics ensuring high quality and lowest cost
- Class leading SaaS systems support the operation

PARTNERSHIPS

Engage in partnerships

- Use **Amazon** to establish brand presence and access to a large customer pool
- Evaluate other online or retail **partnerships** on their commercial merits and alignment in areas including customer service and ESG

PRODUCT ADJACENCIES

Natural adjacencies to men's underwear including:

- **Expand target customer** incl a broader range of Women's products
- **Expand product range** within the innerwear category

**Customers want our product –
we just have to let them know it is available and get it in their hands**

¹. Frost & Sullivan *The Men's and Women's Underwear Markets*, July 2021

FY23 Trading update and strategic progress

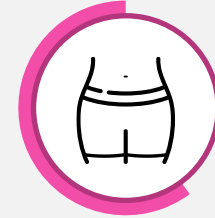
STEP ONE



Profitable growth



**Expanding the customer
funnel**



Expanding our range



**Investing in capability and
product innovation**



**Continuous improvement in
customer experience**



**Expanding sales channels
and marketplaces**

FORMAL BUSINESS



STEP ONE™

Thank You! Q+A

Browse our product range on www.stepone.life while we are talking

Real champions wearing Step One...

4.7

13,778 reviews¹



PRODUCT REVIEW .COM.AU

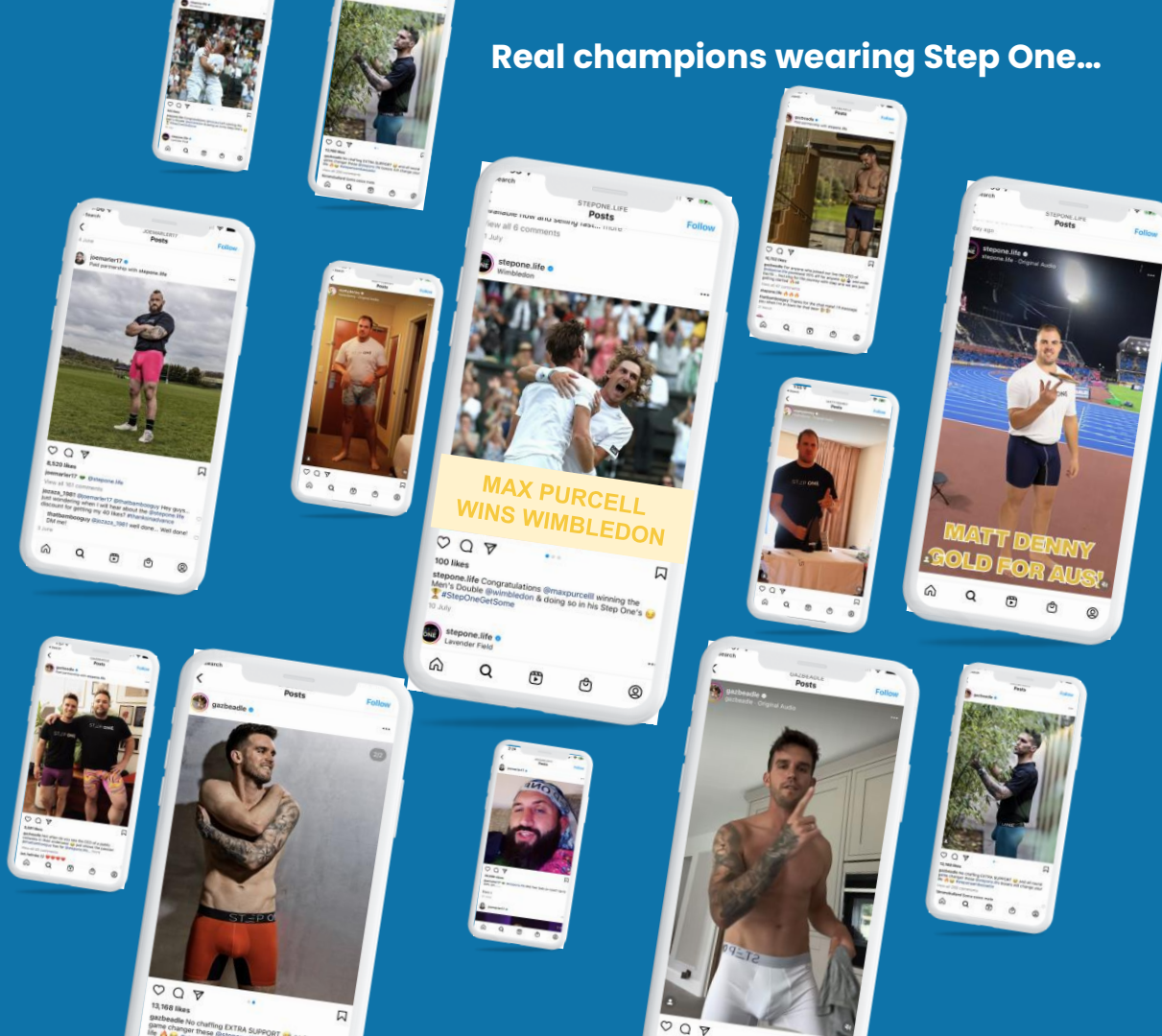
4.6

13,862 reviews¹



Trustpilot

1. Customer reviews taken from respective websites as at 18 August 2022.



Important Notice

STEP ONE™

The material in this presentation has been prepared by Step One Clothing Limited (ASX: STP) (“Step One” or the “Company”) and is general background information about Step One’s activities current as at the date of this presentation. The information is given in summary form and does not purport to be complete in every aspect. In particular you are cautioned not to place undue reliance on any forward-looking statements regarding our belief, intent or expectations with respect to Step One’s businesses, market conditions and/or results of operations, as although due care has been used in the preparation of such statements, actual results may vary in a material manner. Information in this presentation or subsequently provided to the recipient of this information, whether orally or in writing, including forecast financial information, should not be considered advice or a recommendation to investors or potential investors in relation to holding, purchasing or selling securities in the Company. Before acting on any information you should consider the appropriateness of the information having regard to these matters, any relevant offer document and in particular, you should seek independent financial advice.

Forward-looking statements

This presentation may contain forward-looking statements which are statements that may be identified by words such as “may”, “will”, “would”, “could”, “expects”, “intends”, “anticipates”, and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the date of this document, are expected to take place. No person who has made any forward-looking statements in this document has any intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this document, other than to the extent required by law. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company.

This presentation also contains references to certain intentions, expectations and plans of the Company. These intentions, expectations and plans may or may not be achieved. They are based on certain assumptions which may not be met or on which views may differ.

To the maximum extent permitted by law none of Step One, its subsidiaries, or its respective officers, employees, agents or consultants nor any other person accepts any liability, including, without limitation, any liability arising out of negligence, for any loss arising from the use of the information.