TEMPLE & WEBSTER GROUP LTD
ABN 69 608 595 660

ASX Announcement
30 November 2022

AGM Address

Chairman's address

Good morning everyone.

Welcome to our first annual general meeting at our new headquarters. We have only been in this space for a little over a month, so we are very pleased to be able to invite you all here today.

Before we begin, Temple & Webster Group would like to acknowledge the Traditional Owners and Custodians of Country throughout Australia. We recognise their enduring connection to the lands, the waterways and the skies. We acknowledge the Gadigal and Wangal people, on whose lands our corporate head office is located, as well as all other First Nation Countries we operate across. We pay our respects to Elders past, present, and to all Aboriginal and Torres Strait Islander peoples.

The 2022 financial year, similar to 2021, was another period of ups and downs for us all. As lockdowns and self-isolation requirements gave way to 'living with COVID', Australians had to deal with a host of new challenges, including rising interest rates, growing cost-of-living pressures and falling real estate values.

At the same time, many trends that emerged or accelerated during the pandemic look set to stay – for example, working from home or 'hybrid' working arrangements, and the use of online platforms for everyday activities.

Pleasingly, Temple & Webster's proven ability to adapt to rapidly evolving conditions once again enabled us to keep meeting our customers' expectations, while continuing to drive profitable growth.

Highlights for the year

As a result of lockdowns and the resultant shift in consumer spend between online and offline retail over the last 2 years, it's worth considering the revenue and earnings numbers over a two-year combined annual growth rate in an attempt to eliminate some of the significant peaks and troughs that occurred during the period.

Taking that approach, revenue for the year ended 30 June 2022 was $426.3 million, a 55% increase on a two-year compound annual growth rate basis, which is a real highlight for the company

EBITDA for the period was up 38% on a two-year annual compound growth rate basis to $16.2m and EBITDA margin was 3.8%, which was at the high end of our stated 2–4% range which is also a pleasing result.

From a Balance Sheet perspective, we ended the year with $101 million in cash, and we remain debt-free.

This balance sheet provides us with the flexibility to invest in our future growth horizons, accelerate inorganic opportunities, and consider capital management strategies where it makes sense to do so. It also ensures we have the financial strength to navigate any potentially challenging macro conditions that may arise.

Market outlook

While the Board is happy with these results, we believe it is just the start of what we can achieve as the markets we operate in continue to grow.

Our total addressable market in Australia is now valued at more than $30 billion.

This includes our core furniture and homewares market, which is worth around $16 billion annually. This market has proven to be very stable and has shown steady growth over the past 30 years, even during periods of high interest rates, high inflation, recessions and housing market declines.

However, we know that the online penetration of Australia's furniture and homewares market significantly lags behind that of other countries such as the US and the UK.

In the US for example, the online market leader, Wayfair, tripled its share of the entire furniture and homewares market – from 2% to 6% in five years – to become one of the largest furniture and homewares retailers. Although we are taking a more 'asset-light' approach to Wayfair, one could argue that the market dynamics (including margin profile and competitive dynamics) are actually better in Australia than the US, which highlights the enormous opportunity ahead of us.

This potential, along with our already strong online market position, is why the Board believes that despite any short term uncertainty due to macro conditions, Temple & Webster can continue to be a high-growth business for many years to come.

Delivering a high-growth business while growing profit

Whilst we met our FY22 financial objective of delivering a profitable, high-growth business, we continue to target further improvements in our unit economics, marketing efficiency and our cost of doing business. And we'll continue to invest in key areas such as home improvement, business to business, expansion of our private label ranges and in leveraging our data and analytical capability.

New premises

As I mentioned earlier, we recently completed the fit-out and move into our new headquarters here in St Peters.

This site consolidates multiple offices, studio spaces and warehouses, and represents an exciting development in our history. We have negotiated a long lease on the site, with options to expand our footprint and tenure as we grow. We expect to be welcoming you back here for many more AGMs.

Board composition

This year saw several Board changes. Temple & Webster's co-founder and Non-executive Director, Conrad Yiu, has been elevated to the newly created role of Deputy Chair of the Board.

As Deputy Chair, Conrad will assist me with investor relations, work with management to assess inorganic growth opportunities, and chair Board committees as needed.

In March, the Board farewelled Company Secretary Michael Egan, who retired after almost seven years in the role. Our new Company Secretary, Lisa Jones, is a corporate lawyer and corporate governance professional with more than 20 years' experience in commercial law and corporate affairs.

We're also sad to farewell Non-executive Director and Chair of the Audit and Risk Committee, Sue Thomas, who retires as a Director of the company at the conclusion of today's AGM.

Sue joined the Board in early 2016 and has carried out her duties with diligence and integrity and has assisted me in my role as Chairman greatly. I would like to take this opportunity to extend the Board's sincere gratitude to Sue and we wish her well for the future.

As a result of these changes, the Board is actively recruiting two new directors. Conrad will act as interim Chair of the Audit and Risk Committee until a new director is appointed.

CEO multi-year remuneration package

I am also pleased to note that our CEO, Mark Coulter, has agreed to a new multi-year remuneration package which is heavily weighted to long-term shareholder value.

Since rejoining the business in 2016, Mark and his team have grown revenue seven-fold to record levels, significantly improved the profitability metrics and have made sound operational and strategic investments to create a platform of sustainable growth that positions Temple & Webster as the leading pure-play online retailer in the category.

Mark is, without doubt, one of the best e-commerce CEOs in Australia, and we are pleased to have Mark at our helm as we enter Temple & Webster's next growth phase.

Thanks

On behalf of the Board, I would like to thank Mark, Chief Financial Officer Mark Tayler and our broader management team for their hard work and dedication in what has proven to be another challenging yet successful year for Temple & Webster.

I'd like to extend my thanks to my fellow Directors Conrad Yiu, and Belinda Rowe, our Company Secretary Lisa Jones and our retiring Director, Sue Thomas, for their expertise, commitment and stewardship.

And finally, I would also like to thank you, our shareholders, for your continued support.

I will now hand over to Mark for his address.

CEO's address

Thank you, Stephen. And good morning fellow shareholders.

As Stephen just outlined, revenue for the year was $426.3 million, which is a 55% increase on a two-year CAGR basis. The great part of this result was that it was driven by both a 21% year-on-year increase in the number of active customers, and a 6% increase in revenue per active customer. Not only are we getting bigger, our customers are spending more with us as we do so.

Pleasingly, 55% of customers are now returning customers. This is very positive as repeat orders have a lower marketing cost than those for new customers. This will be a key driver in reducing marketing spend as a percentage of revenue in the long term. Our base of happy customers is also a strategic moat around the business.

As you just heard, our EBITDA for the year was 3.8%. Importantly this result included an investment of $1.7 million in the Group's new Home Improvement site – known as The Build by Temple & Webster, at www.thebuild.com.au.

It also included investments in areas that enabled us to maintain our competitive advantage, including technology and data, logistics services, content, and merchandising capabilities.

We also accelerated our investment in sectors adjacent to our core furniture and homewares business – including our B2B segment and the home improvement category. We believe these areas will deliver significant growth for our business in the years to come.

Business highlights

While we are constantly innovating, I think it's worth calling out some notable achievements for the year.

- We increased our investment in our Israeli start-up, Renovai. We use Renovai's AI/AR interior design tool to showcase our products in an inspirational way that gives customers even more confidence to shop with us. This functionality is supporting increases in our average order value and our conversion rate.

- As mentioned, we launched a new online-only home renovators' store: The Build by Temple & Webster. This will help us capitalise on the significant opportunity presented by the $26 billion home improvement market – $16 billion of which will be serviced by our business. The Build leverages our core technology platform, digital marketing and data expertise to feature more than 20,000 products across 40 categories. Our goal is for The Build to become Australia's 'first-stop shop' for all things DIY and home improvement.
  The Build reminds the co-founders of our early days in building Temple & Webster back in 2011, and while early days, traction to date is surpassing our internal expectations. An important part of Temple & Webster's culture is our entrepreneurial DNA, and we are delighted to see our next generation of executives and managers embracing the opportunity. The site helped our home improvement category grow by 61% year on year.
- Our Trade & Commercial division continued to deliver strong results, growing 39% year on year. This is despite the commercial sector experiencing significant disruptions due to the pandemic. We are still big believers in the B2B market, which has attractive market dynamics and is another market ripe for disruption.
- This year we made considerable progress on our commitment to make the world more beautiful from environmental and social points of view. We developed a materiality assessment to identify key risks and opportunities to create positive outcomes, and established our sustainability roadmap to guide and prioritise future actions. We hired a full-time Sustainability Officer to oversee our sustainability initiatives. In the environmental sphere, we completed our FY22 carbon inventory and are investigating reduction initiatives. We committed to meeting Australia's 2025 National Packaging Targets by becoming a signatory to the Australian Packaging Covenant Organisation (APCO). In the social space, we established a Reconciliation Action Plan Working Group to develop our Reflect Reconciliation Action Plan. We continued to invest in employee wellbeing and development through training, upskilling and support programs.
- We launched our own dedicated delivery fleet, which services the catchment areas around our third-party warehouses. Again, we have chosen an asset-light strategy and have contracted a logistics company to run this fleet for us. While diversifying our carrier partner mix, it also has the added benefit of enabling us to fully control the delivery experience for customers. Early high Net Promoter Score data has shown the benefits of this initiative.
- Finally, as Stephen mentioned, we are delighted to have moved into our new headquarters in St Peters. After the lockdowns and remote working arrangements of the past few years, it is great to welcome our team back and to have everyone working together under one roof. We are a young, vibrant company that thrives on collaboration, creativity and innovation, and it is important that our team can work together in person. We believe this office will also be an important part of our employer value proposition to attract and retain talent as we continue to grow.

Where to from here?

As we head towards the second half of FY23, we understand that there could be turbulent times ahead for Australia, due to prevailing economic conditions.

Fortunately, we have several factors on our side to help combat potential volatility.

The most important of these is the financial strength of our business. We have a strong balance sheet and we are profitable, which will safeguard against any negative downturn in the macro environment.

Furthermore, we are the market leader in a sector that we believe will grow substantially over time. About 12–15% of the furniture and homewares market in Australia is currently online, but we expect market penetration to grow to more than 50% over time, as in other retail categories. Additionally, our investments in complementary markets such as home improvement, and trade and commercial will help to diversify our revenue streams.

We also believe our product price proposition delivers great value for our customers, especially compared to some of our offline competitors. This will become even more important as economic conditions get tougher and customers look for more value-orientated channels and products.

Our flexible business model also helps us to withstand market pressures. We can use a variety of variable performance levers to ensure we remain profitable, including phasing our longer-term investment profile, improving the efficiency of our marketing spend, optimising margins and reducing our cost of doing business.

We have good diversity across our supply chain, which has allowed us to stay ahead of many of the supply chain issues many other retailers continue to experience. And we're starting to see improvements in pricing for freight costs and the price of wholesale products, which will be beneficial for us if these trends continue.

Our strategy

Importantly our strategy hasn't changed.

- We are a retailer, which means everything starts with product and price. We want to be known for having the biggest and best range, and to be the go-to place for quality products at affordable prices. The increased use of our balance sheet through the expansion of our private label remains a key project, along with strengthening our relationship with our key drop shippers.
- We want to inspire people to make their homes more beautiful, with inspirational content and services. The continued rollout of tools such as Renovai will differentiate our offering and allow us to deliver inspiration at scale.
- We want to create exceptional customer experiences at every step of the journey from browsing to accepting a delivery. The key initiative for the year will be to expand our third-party warehouse footprint and T&W delivery network to continue to improve the delivery time and experience for our customers.

- And we want to achieve this with a strong foundation of data-driven marketing, world-class technology and exceptional execution from our team.

We will also keep investing in the complementary markets we've identified for future growth, including trade and commercial, and home improvement.

On a personal note, I am extremely pleased to have been asked to continue to lead Temple & Webster for this next phase. Temple & Webster is already an exceptional success story and I feel privileged to be part of the team that will propel it to even greater heights.

Trading update

As previously flagged, H1 was going to be the toughest period for year-on-year comparisons due to the timing of lockdowns during FY22. This resulted in an overall decline in revenue of 14% for the period 1st July to the 27th Nov 2022.

The pleasing news is that we have now begun the trajectory back to growth, and Q2 (QTD: 1st Oct to the 27th Nov) is only down 3% vs the same period last year and the month of November (1st Nov to the 27th Nov) is running slightly ahead of November last year. This is a good sign as this month is usually our busiest sales period due to Black Friday, suggesting a return to double-digit growth during the financial year.

Inventory levels remain strong across both our drop-ship network and our own private label range, and deflationary signs are appearing on both factory and container costs.

While a return to year-on-year growth is important, equally important in this environment is a focus on unit economics and bottom-line profitability. The Group reiterates its stated 3–5% EBITDA range for the full FY23.

Our cash remains in excess of $100 million, providing the Group with the ability to accelerate organic and/or inorganic initiatives to drive both revenue growth and accretion in earnings per share.

Thank you to the Tempster team

I'd like to say a huge thank you to the Tempster team.

Dealing with everything the pandemic has thrown our way hasn't been easy. As always, you have shown incredible resilience, approaching every challenge with energy, drive and dedication.

You've managed to deliver another amazing set of results that has put us in an extremely favourable position for FY23 and beyond.

Finally, I would like to say a big thank you to Sue Thomas, who joined the Board at a challenging time in our Company's history. Sue showed incredible loyalty and grit by staying with us through these times, and has constantly challenged us to be a better business and a better board. I personally have learnt a lot from Sue, and can hand on my heart say our strategic planning, financial processes, risk management, technology roadmap and general good governance would not be in the great state they are in today, without Sue's hard work and commitment. Sue, on behalf of the co-founders and broader shareholder group, I thank you for your hard work and wish you all the best for the future.

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This announcement has been authorised by the Board of Directors.

Lisa Jones

Company Secretary

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Forward-looking statements

Certain statements contained in this announcement are forward-looking statements or statements about future matters, including any indications of, and guidance or outlook on, the earnings, financial position and/or performance of Temple & Webster. These statements involve known and unknown risks and uncertainties and other factors (many of which are beyond the control of Temple & Webster) and involve significant elements of subjective judgement and assumptions as to future events (which may or may not be correct). No representation, warranty or assurance is given that the occurrence of any of the events expressed or implied in these statements will actually occur, or that actual outcomes will not differ materially from the outcomes expressed or implied in these statements.

About the Temple & Webster Group

Temple & Webster is Australia's largest pure play online retailer of furniture and homewares.

Temple & Webster has over 200,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model whereby products are sent directly to customers by suppliers. This enables faster delivery times, reduces the need to hold inventory, and allows for a larger product range.

The drop-ship range is complemented by a private label range that is sourced directly by Temple & Webster from overseas suppliers.

The Build by Temple & Webster (www.thebuild.com.au) is a pure-play online retailer for home improvement. Sharing the same mission as its leading furniture and homewares sister site Temple & Webster, The Build helps Australians make their homes more beautiful and turn home renovators' visions into reality by providing the biggest and best range, a beautiful and easy shopping experience, and inspirational content.

Temple & Webster Group's registered office and principal place of business is 2,1–7 Unwins Bridge Road, St Peters, Sydney, Australia. The business is listed on the Australian Securities Exchange under the code TPW.