16 January 2023

Baby Bunting half year results update
Gross margin improvements on track to deliver 2H earnings recovery

Baby Bunting Group Limited (Baby Bunting or the Group) today provides the following update.

For the first half of FY23 (27 June 2022 to 26 December 2022), Baby Bunting's preliminary unaudited financial results were:

$m	1H FY23	1H FY22	change vs 1H FY22
Sales	254.9	239.1	6.6%
Gross profit %	37.2%	39.3%	-2.1%
Pro forma[1] NPAT			
AU	6.9	12.5	-45%
NZ	(1.8)[2]	-	-
Group	**5.1**	**12.5**	**-59%**

CEO & Managing Director, Matt Spencer, said "Baby Bunting's strategy is to grow market share and we grew total sales by 6.6% for the first half of FY23, with comparable store sales being 0.4%. Positive comparable store sales growth was achieved despite cycling the significant growth in sales of 16.1% in Q2 in the prior year as Victoria and NSW emerged from significant periods of lockdown.

"Our core nursery categories, which are less discretionary such as car safety, prams and feeding, continued to perform well through the half and are an important part of Baby Bunting's future growth and differentiates us from others in the market.

"The gross profit margin deficit experienced in Q1 improved in Q2 driven by the execution of our recovery plans through the second quarter that will deliver further benefits into 2H FY23. Full year gross profit margin is now expected to be between 38% and 39% and ahead of last year in 2H.

"During this period, we continued to invest in the business to support future growth as we work towards our long term store network target of 120 stores in Australia and New Zealand and our digital strategy to grow market share.

"The combination of lower gross profit margin for the half and softer than anticipated sales in December, resulted in a pro forma net profit after tax result of $5.1 million.

Sales

Total sales of $254.9 million for the half were 6.6% higher than 1H FY22. Sales for Q2, while cycling significant prior year comparable store sales growth of 16.1%, were below Baby Bunting's expectations towards the end of the quarter.

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1 Pro forma financial results exclude employee equity incentive expenses and significant costs associated with business transformation projects. This information is presented on a pro forma basis to better demonstrate the underlying trading performance of the business.

2 Operating loss includes establishment costs of $0.4 million.

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Comparable sales growth %	Q1	Q2	1H
FY23	7.6%	-7.2%	0.4%
FY22	-1.3%	16.1%	6.8%
Double-stacked	6.3%	8.9%	7.2%
FY23 v FY19 (pre COVID)	26.6%	17.0%	21.5%

The variation in Q1 and Q2 comparable store sales performance was reflective of the impacts of prior year lockdowns in Q1 FY22 followed by a boost in consumer spending once the lockdowns ended in Q2 FY22.

On a two-year stacked basis, comparable store sales growth was 7.2% for 1H. When measured against pre-COVID FY19 levels, comparable store sales growth has been 21.5%.

Gross profit

Gross profit %	Q1	Q2	1H	2H outlook	FY outlook
FY23	36.4%	37.9%	37.2%	*38.5% – 40.5%**	*38.0% – 39.0%**
FY22	38.7%	39.7%	39.3%	38.0%	38.6%
YoY change	-2.3%	-1.8%	-2.1%	*+0.5% to +2.5%**	*-0.6% to +0.4%**

** Group forecast*

Matt Spencer continued, "At our AGM in October 2022, we reported that Q1 gross profit margin was down 230 basis points against Q1 in the prior year driven by a number of factors. Since then, gross margin has improved from 36.4% in Q1 to 37.9% in Q2.

"During the period, we remained focused on being competitive and delivering value to the consumer. Our Price Beat promise is low at around 1% of sales and we expanded our every day pricing strategy of Best Buys to be 53% of sales for the half, up from 35% of sales in 1H FY22.

"In Q2, we made some important refinements to our loyalty program, effective in mid-December. The full benefit of these changes are anticipated to be an improvement to gross margin of between 50 and 80 basis points in 2H FY23. This, along with strategic adjustments to pricing and changes to domestic freight arrangements, have resulted in a positive movement in margin.

"These changes plus reductions in international shipping rates will pave the way for further margin improvement in the second half. For FY23 we expect full year gross profit margin to be between 38% and 39%, noting FY22 was 38.6%."

Costs

The first half reflects the investment to establish the New Zealand business, including the costs incurred ahead of further store openings. A second store is due to open in Christchurch in this half as the Group works towards a network of ten plus stores.

Baby Bunting also incurred $0.7 million of start-up costs for the Marketplace project which will launch in 2H.

Actions are being taken to manage costs to appropriate levels, including pursuing opportunities for efficiency improvements.

New store roll-out

During the first half, new stores have been opened at Albany (NZ), Burnside (Vic), Hornsby (NSW) and Hectorville (SA). A new store also opened at Chirnside Park (Vic) and the Ringwood (Vic) store was relocated to Eastland Shopping Centre, both in the same catchment, to better service this large market opportunity in Melbourne.

In addition to these five new stores, Baby Bunting expects to open new stores at Christchurch (NZ), Orange (NSW) and Loganholme (Qld) in the second half.

FY23 outlook

For FY23, Baby Bunting expects:

- pro forma net profit after tax to be in the range of $21.5 million to $24 million; and
- full year gross profit margin to be between 38% to 39%.

This outlook reflects comparable store sales growth that ranges between negative low single digits and positive low single digits for the full year. The breadth of the range reflects a degree of uncertainty associated with consumer demand and behaviour.

The outlook assumes no significant deterioration in economic conditions that affect sales performance.

Baby Bunting will release its half year reviewed statutory results on Friday, 17 February 2023. All financial information included in this update has not been reviewed or audited and remains subject to further review and finalisation.

The release of this announcement was authorised by the Board.

For further information, please contact:

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