Appendix 4D

(Rule 4.2A.3)

Baby Bunting Group Limited

ABN 58 128 533 693

For the half-year ended:	Period ended 26 December 2022
Previous corresponding period:	Period ended 26 December 2021

Results for announcement to the market

Statutory Financial Results	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	254,865	239,066	15,799	6.6%
Net profit from ordinary activities after tax (attributable to members)	2,709	8,147	(5,438)	(66.7%)
Net profit attributable to members	2,709	8,147	(5,438)	(66.7%)

Pro Forma Financial Results	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	254,865	239,066	15,799	6.6%
Net profit from ordinary activities after tax (attributable to members)	5,124	12,545	(7,421)	(59.2%)
Net profit attributable to members	5,124	12,545	(7,421)	(59.2%)

Pro forma financial results have been calculated to exclude certain items contained in the following table that reconciles the statutory results to pro forma financial results for the period ended 26 December 2022 and provides further detail on pro forma adjustments. This has been done to more clearly represent the consolidated entity's underlying earnings (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards).

Period ended 26 December 2022	Sales $'000	NPAT $'000
Statutory results	**254,865**	**2,709**
Employee equity incentive expenses[1,2]	–	252
Transformation project expenses[3]	–	2,225
Tax impact from pro forma adjustments	–	(62)
Pro forma results	**254,865**	**5,124**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the current reporting period. This also includes a write-back of the 2020 – Series 1 (TSR CAGR) and 2020 – Series 1 (EPS CAGR) expenses ($1.673 million) as the CAGR hurdles as defined under the LTI plan, are unlikely to be achieved.
2. The Company issued 277,182 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.782 million).
3. The Company continues its investment in Transformation projects and during the half, the Company incurred ($2.225 million) non-capital costs associated with the implementation of an advance order management system and a time and attendance system. Other transformation project expenses include external consultant costs associated with project management costs to deliver the transformation projects.

Appendix 4D
(Rule 4.2A.3)
(cont.)

The following table reconciles the statutory results to pro forma financial results for the period ended 26 December 2021 (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards):

Period ended 26 December 2021	Sales $'000	NPAT $'000
Statutory results	**239,066**	**8,147**
Employee equity incentive expenses[1,2]	–	4,736
Transformation project expenses[3,4]	–	2,749
Tax impact from pro forma adjustments	–	(3,087)
Pro forma results	**239,066**	**12,545**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the current reporting period.
2. The Company issued 135,051 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.760 million).
3. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the half, the Company incurred ($2.017 million) non-capital costs associated with the implementation of a Loyalty system, People systems and digital technology assets.
4. Other transformation project expenses ($0.732 million) include external consultant costs associated with project management costs to deliver the transformation projects.

Dividends

	Amount per security (cps)	Franked amount
Dividends paid		
Final 2022 dividend per share (paid 9 September 2022)	9.0	100%

Dividends determined		
Interim 2023 dividend per share	2.7	100%
Record date for determining entitlements to the dividend	3 March 2023	
Date dividend is payable	17 March 2023	

The Company does not currently offer a dividend reinvestment plan.

Commentary on results for the period

For further explanation of the statutory figures above refer to the accompanying Financial Report for the half-year ended 26 December 2022, which includes the Directors' Report. The Half Year Results Presentation released in conjunction with this Results Announcement provides further analysis of the results.

Net tangible assets per ordinary share

	26 December 2022 $	26 December 2021 $
Net tangible assets per ordinary share		
Net tangible assets per ordinary share	0.39	0.46

Other information

Independent Review by Auditor

This report is based on the condensed consolidated financial statements which have been reviewed by Ernst & Young.

BabyBunting®

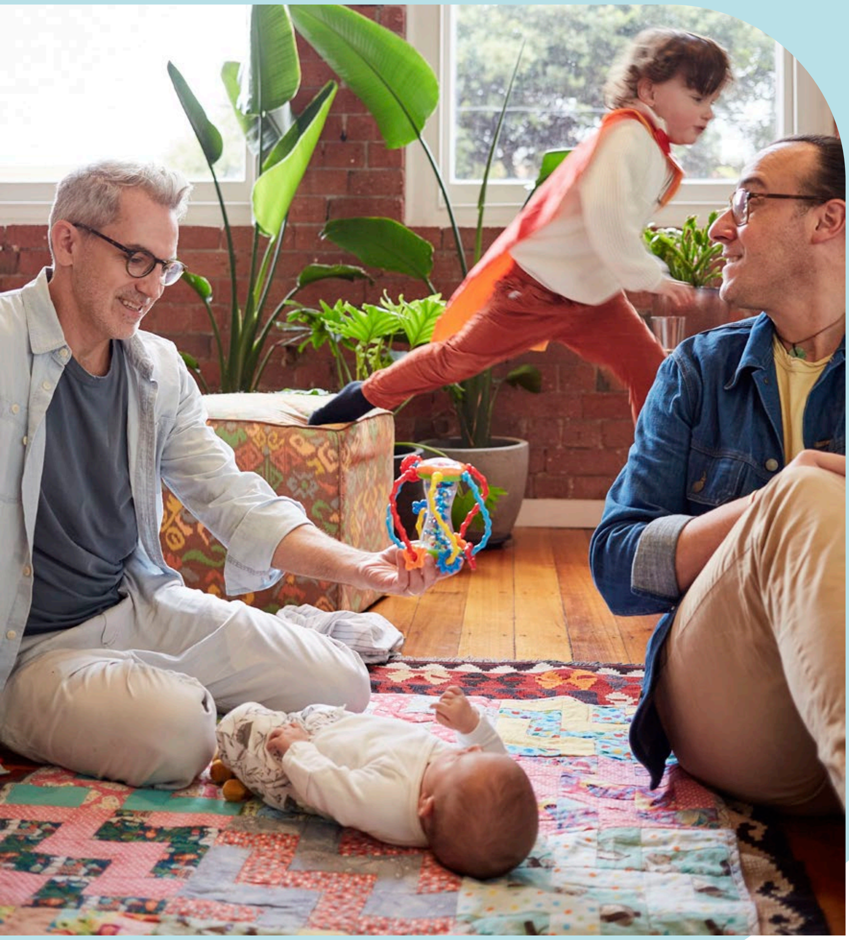
FINANCIAL REPORT

for the half-year ended 26 December 2022

Baby Bunting Group Limited
ABN 58 128 533 693

Contents

Vision: to be the most loved baby retailer for every family, everywhere.



Directors' report

The Directors of Baby Bunting Group Limited (the Company or Baby Bunting) submit the financial reports of the Company and its controlled entities (the consolidated entity) for the half-year ended 26 December 2022.

Directors

The names of the Directors of the Company during the half-year and up to the date of this report:

- Ms Melanie Wilson
- Mr Matthew Spencer
- Mr Gary Levin
- Ms Donna Player
- Mr Gary Kent
- Ms Francine Ereira
- Mr Stephen Roche

The above named Directors held office during the whole of the half-year.

Review of operations

Baby Bunting is Australia's largest specialty retailer of maternity and baby goods, primarily catering to parents with children from newborn up to three years of age and parents-to-be. The Company's principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester, associated accessories and consumables and also offers baby related services including safety accredited car seat fitting and the hire of certain nursery and travel safe products. Baby Bunting's core purpose is to support new and expectant parents in the early years of parenthood.

The Company has a network of retail stores throughout Australia as well as an online store. In August 2022, the Company opened its first retail store in New Zealand.

The Company's strategy is focused on growing its market share and continuing to improve its execution and financial performance.

This is underpinned by the following key strategies:

- Invest in digital to deliver the best possible retailing experience across channels and enable new business models;
- Invest to grow market share from Baby Bunting's core business, including the roll out of new stores and formats, enhanced fulfilment, and new services to existing customers;
- Growth from new markets leveraging Baby Bunting's core competencies and data into adjacent categories, entering new geographies and expanding the value chain;
- Profit margin improvement by increasing scale, developing private label and exclusive products and leveraging infrastructure to reduce the cost of doing business.

Key operational achievements for the Company in 1H FY23 included:

- Private label and exclusive product expansion continue to deliver value for customers and increased gross margins with sales growth of 6.5%. These products now represent 44.4% of sales (44.5% in the prior corresponding period).
- Opening five new stores, being Albany (NZ), Hornsby (NSW), Burnside (VIC), Hectorville (SA), and Chirnside Park (VIC). With the opening of a new store at Loganholme (QLD) after the end of the half, the store network is now 69 stores around Australia.
- Relocation of one store, being the former Ringwood store to Eastland Shopping Centre (VIC), both in the same catchment, to better service this large market opportunity in Melbourne.
- Refining the execution of the Loyalty program as it cycles the anniversary of its launch, to deliver a better experience and grow revenue opportunities.
- Establishing the systems and business processes for the Baby Bunting Marketplace, which is scheduled to launch in Q4 FY23.

Directors' report continued

Review of the Company's financial performance

The half-year statutory results for the period ended 26 December 2022 (1H FY22: period ended 26 December 2021) are summarised below:

- Total sales were $254.865 million, an increase of 6.6% against the prior corresponding period;
- Gross profit of $94.694 million up 0.9% against the prior corresponding period. Gross margin decreased by 212 basis points to 37.2%;
- Statutory net profit after tax (NPAT) of $2.709 million, a decrease of 66.7% against the prior corresponding period;
- Statutory basic earnings per share (EPS) of 2.0 cents, a decrease of 68.3% against the prior corresponding period;
- Net debt of $20.330 million (versus net debt of $8.444 million at the end of the prior corresponding period).

Pro forma financial results have been calculated to exclude the impact of employee equity incentive expenses, significant transformation project expenses, and the income tax impact associated with these adjustments.

On a pro forma basis, the 1H FY23 financial results were:

- Total sales grew 6.6% to $254.865 million; with comparable store sales growth of 0.4%;
- Pro forma NPAT of $5.124 million, a decrease of 59.2% on the prior corresponding period;
- Pro forma cost of doing business was $82.516 million or 32.4% of total sales, an increase of 222 basis points on the prior corresponding period (CODB 30.2% of sales in 1H FY22).

The Company continued to execute on its strategy and grew market share delivering sales of $254.865 million representing growth of 6.6% for the half (against the prior corresponding period). The total sales growth for the half was achieved from existing stores, online sales, five new stores opened in 1H FY23 and the annualising stores opened in FY22.

Sales from the store network were up 12.2% on the prior corresponding period and represented around 80% of total sales, online delivery sales (around 12% of total sales) grew 6.5% and click and collect sales (now 8% of total sales) reduced by 30.2%. The decline in click and collect sales reflects some consumers returning to pre-COVID shopping behaviours. Overall click and collect sales have grown 225% since pre pandemic levels, despite the first half reduction seen in this sales channel in FY23.

Product segment sales performance is also returning to a pre-COVID mix. Nursery essentials, being the Company's core categories of nursery products, continue to grow and were up 12.7% in the half. Consumer staples, which are more widely available across general retail, saw a decline of 4.7%. Play time (including play gear products) declined 3.6% in the half, which reflected price deflation and reduced demand post-COVID.

Sales from private label and exclusive products grew 6.5% (against the prior corresponding period) and now represent 44.4% of total sales (44.5% in 1H FY22).

The first half decline in gross profit margin of 212 basis was due to increases in input costs such as diesel fuel and container importation costs, and a strong engagement in our loyalty program which launched in November 2021. A number of management actions were taken in the second financial quarter to alleviate these gross margin impacts. The financial benefit of these management changes is expected to primarily flow through in the second half of 2023.

Pro forma Cost of Doing Business (CODB) expenses (excluding the impact of AASB 16 lease accounting) as a percentage of sales increased by 222 basis points to 32.4% of sales (30.2% of sales in 1H FY22). Pro forma CODB expenses were $82.516 million ($72.136 million in the prior corresponding period). The increase in business expenses primarily relates to the opening of five new stores in 1H FY23 as well as four stores opened in FY22 ($4.0 million year on year impact). The first half CODB increase reflects the investment to establish the New Zealand business and overheads to support future store roll out in that country (primarily a DC lease). The Company also incurred $0.740 million in start up costs for the Marketplace project which will launch in Q4 FY23. The business continues to invest in the Store Support Centre team, business processes as well as IT systems and infrastructure ensuring it is appropriately supported for future growth.

Dividends

The Company paid a fully franked final dividend of 9 cents per share, in respect of the 2022 financial year, on 9 September 2022 totalling $11.921 million. The Directors have determined to pay an interim fully franked dividend of 2.7 cents to be paid on 17 March 2023 (with a record date of 3 March 2023).

Non-IFRS measures

The consolidated entity uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as 'non-IFRS financial measures'. Non-IFRS financial measures are intended to supplement the measures calculated in accordance with Australian Accounting Standards and are not a substitute for those measures. Underlying statutory and pro forma results and measures are intended to provide shareholders additional information to enhance their understanding of the performance of the consolidated entity.

Non-IFRS financial measures that are referred to in this report are as follows:

Non-IFRS financial measure	Definition
Cost of doing business (CODB)	Includes store, administrative, marketing and warehousing expenses (excluding the impact of AASB 16 lease accounting).
EBIT	Earnings before interest and tax. EBIT eliminates the impact of the consolidated entity's capital structure and historical tax position when assessing profitability.
Operating EBIT	Excludes the effects of interest revenue, finance costs, income tax and other non-operating costs. The CEO and Managing Director assesses the performance of the operating segments (Australia and New Zealand) based on a measure of Operating EBIT.
Pro forma EBITDA	Earnings before interest, tax, depreciation, and amortisation expense (excluding the impact of AASB16 lease accounting) and excludes pro forma adjustments included in the financial results below.

Pro forma financial results have been calculated to exclude certain items contained in the following table that reconciles the statutory results to pro forma financial results for the period ended 26 December 2022 and provides further detail on pro forma adjustments. This has been done to more clearly represent the consolidated entity's underlying earnings (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards).

Period ended 26 December 2022 $'000	Sales	NPAT
Statutory results	**254,865**	**2,709**
Employee equity incentive expenses[1,2]	–	252
Transformation project expenses[3]	–	2,225
Tax impact from pro forma adjustments	–	(62)
Pro forma results	**254,865**	**5,124**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the current reporting period. This also includes a write-back of the 2020 – Series 1 (TSR CAGR) and 2020 – Series 1 (EPS CAGR) expenses ($1.673 million) as the CAGR hurdles as defined under the LTI plan, are unlikely to be achieved.
2. The Company issued 277,182 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.782 million).
3. The Company continues its investment in Transformation projects and during the half, the Company incurred ($2.225 million) non-capital costs associated with the implementation of an advance order management system and a time and attendance system. Other transformation project expenses include external consultant costs associated with project management costs to deliver the transformation projects.

Directors' report continued

The following table reconciles the statutory results to pro forma financial results for the prior comparable period ended 26 December 2021 (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards):

Period ended 26 December 2021 $'000	Sales	NPAT
Statutory results	**239,066**	**8,147**
Employee equity incentive expenses[1,2]	–	4,736
Transformation project expenses[3,4]	–	2,749
Tax impact from pro forma adjustments	–	(3,087)
Pro forma results	**239,066**	**12,545**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the current reporting period.
2. The Company issued 135,051 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.760 million).
3. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the half, the Company incurred ($2.017 million) non-capital costs associated with the implementation of a Loyalty system, People systems and digital technology assets.
4. Other transformation project expenses ($0.732 million) include external consultant costs associated with project management costs to deliver the transformation projects.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is attached to this Directors' Report on page 6.

Rounding of amounts

The Company has taken advantage of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and Financial Statements. Amounts in these reports have been rounded off in accordance with that Instrument to the nearest thousand dollars or in certain cases, to the nearest dollar.

The Directors' Report is made in accordance with a resolution of Directors.

On behalf of the Directors

Melanie Wilson

Melanie Wilson
Chair

Melbourne
17 February 2023

Auditor's independence declaration

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Baby Bunting Group Limited

As lead auditor for the review of the half-year financial report of Baby Bunting Group Limited for the half-year ended 26 December 2022, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review;

(b) no contraventions of any applicable code of professional conduct in relation to the review; and

(c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Baby Bunting Group Limited and the entities it controlled during the financial period.

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner
17 February 2023

Financial report

for the half-year ended 26 December 2022

Contents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half-year ended 26 December 2022

	Note	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Revenue	4	254,865	239,066
Cost of sales		(160,171)	(145,171)
Gross profit		**94,694**	**93,895**
Other operating income	5	–	46
Store expenses	6	(53,844)	(47,774)
Marketing expenses		(4,744)	(4,097)
Warehousing expenses	6	(5,937)	(4,465)
Administrative expenses	6	(19,085)	(21,082)
Transformation project expenses	6	(2,225)	(2,749)
Finance costs	6	(4,187)	(3,298)
Profit before tax		**4,672**	**10,476**
Income tax expense		(1,963)	(2,329)
Profit after tax		**2,709**	**8,147**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		95	–
Net gain/(loss) on cash flow hedges		(412)	–
Income tax effect relating to the components of OCI		38	–
Net other comprehensive gain/(loss) that may be reclassified to profit or loss in subsequent periods		**(279)**	**–**
Net other comprehensive income/(loss) for the year, net of tax		**(279)**	**–**
Total comprehensive income for the year, net of tax		**2,430**	**8,147**
Profit for the period attributable to:			
Equity holders of Baby Bunting Group Limited		**2,709**	**8,147**
Total comprehensive income attributable to:			
Equity holders of Baby Bunting Group Limited		**2,430**	**8,147**
Earnings per share			
From continuing operations			
Basic (cents per share)		2.0	6.3
Diluted (cents per share)		2.0	5.8

Notes to the consolidated financial statements are included in pages 12 to 21.

Consolidated Statement of Financial Position

as at 26 December 2022

	Note	26 Dec 2022 $'000	26 Jun 2022 $'000
Current assets			
Cash and cash equivalents		10,834	12,238
Other receivables	7	3,476	5,303
Inventories	8	112,924	96,667
Current tax assets		1,038	–
Other financial assets		–	407
Other assets	9	4,790	5,138
Total current assets		**133,062**	**119,753**
Non-current assets			
Plant and equipment		30,761	30,316
Intangibles		6,462	5,304
Goodwill		45,321	45,321
Right of use asset		147,990	139,838
Deferred tax assets		7,273	10,137
Total non-current assets		**237,807**	**230,916**
Total assets		**370,869**	**350,669**
Current liabilities			
Trade and other payables	10	54,945	52,555
Other liabilities	11	5,367	5,785
Current tax liabilities		–	585
Lease liabilities		32,431	29,550
Financial liabilities		127	–
Provisions	12	6,723	6,537
Total current liabilities		**99,593**	**95,012**
Non-current liabilities			
Borrowings	13	31,164	12,946
Lease liabilities		134,630	126,682
Provisions	12	1,596	1,308
Total non-current liabilities		**167,390**	**140,936**
Total liabilities		**266,983**	**235,948**
Net assets		**103,886**	**114,721**
Equity			
Issued capital	14	88,695	87,913
Reserves	17	15,128	17,378
Retained earnings		63	9,430
Total equity		**103,886**	**114,721**

Notes to the consolidated financial statements are included in pages 12 to 21.

Consolidated Statement of Changes in Equity

for the year ended 26 December 2022

	Issued Capital $'000	Share-based Payments Reserve $'000	Share-based Payment Tax Reserve $'000	Cash Flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance as at 27 June 2021 (restated)	**87,153**	**8,954**	**4,195**	**–**	**–**	**5,868**	**106,170**
Profit for the period	–	–	–	–	–	8,147	8,147
Other comprehensive income	–	–	–			–	–
Total comprehensive income for the period	–	–	–	–	–	8,147	8,147
Issue of shares (Note 14)	760	–	–	–	–	–	760
Dividends (Note 15)	–	–	–	–	–	(10,772)	(10,772)
Share-based payment expense (Note 17)	–	3,750	–	–	–	–	3,750
Tax effect of share-based payments (Note 17)	–	–	2,055	–	–	–	2,055
Transfer to retained earnings	–	–	(3,600)	–	–	3,600	–
Balance at 26 December 2021	**87,913**	**12,704**	**2,650**	**–**	**–**	**6,843**	**110,110**
Balance at 26 June 2022	**87,913**	**15,782**	**1,287**	**285**	**24**	**9,430**	**114,721**
Profit for the period	–	–	–	–	–	2,709	2,709
Other comprehensive income	–	–	–	(374)	95	–	(279)
Total comprehensive income for the period	–	–	–	(374)	95	2,709	2,430
Issue of shares (Note 14)	782	–	–	–	–	–	782
Dividends (Note 15)	–	–	–	–	–	(11,921)	(11,921)
Share-based payment expense (Note 17)	–	(686)	–	–	–	–	(686)
Tax effect of share-based payments (Note 17)	–	–	(1,440)	–	–	–	(1,440)
Transfer to retained earnings	–	–	155	–	–	(155)	–
Balance at 26 December 2022	**88,695**	**15,096**	**2**	**(89)**	**119**	**63**	**103,886**

Notes to the consolidated financial statements are included in pages 12 to 21.

Consolidated Statement of Cash Flows

for the half-year ended 26 December 2022

	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Cash flows from operating activities		
Receipts from customers	281,757	267,135
Payments to suppliers and employees	(267,036)	(241,879)
Income tax paid	(1,976)	(2,809)
Finance costs paid	(3,918)	(3,322)
Net cash from operating activities	**8,827**	**19,125**
Cash flows from investing activities		
Payments for plant and equipment and intangibles	(5,158)	(6,666)
Net cash used in investing activities	**(5,158)**	**(6,666)**
Cash flows from financing activities		
Lease payments	(11,370)	(11,066)
Dividends paid	(11,921)	(10,772)
Proceeds from borrowings	18,218	13,534
Net cash used in financing activities	**(5,073)**	**(8,304)**
Net (decrease)/increase in cash and cash equivalents	**(1,404)**	**4,155**
Cash and cash equivalents at beginning of the period	12,238	10,884
Cash and cash equivalents at end of the period	**10,834**	**15,039**

Notes to the consolidated financial statements are included in pages 12 to 21.

Notes to the Consolidated Financial Statements

for the half-year ended 26 December 2022

Note 1: Reporting entity

Baby Bunting Group Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and its principal place of business is 153 National Drive, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the half-year ended 26 December 2022 comprise the Company and its subsidiaries (together referred to as the 'consolidated entity'). The consolidated entity is primarily involved in the retailing of baby merchandise.

The Company was admitted to the official list of the Australian Securities Exchange (ASX) on 14 October 2015 under the ASX code 'BBN'.

The Company has adopted a retail calendar for financial reporting purposes which ended on 26 December 2022. The prior half year was a retail calendar ending on 26 December 2021.

Note 2: Summary of significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the half-year financial report.

a. Statement of Compliance

The half-year financial report has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

This half-year financial report does not include all notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 26 June 2022 and any public announcements made by the Company during the half-year reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

This half-year financial report was authorised for issue by the Directors on 17 February 2023.

b. Basis of Preparation

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2022 annual financial report for the year ended 26 June 2022.

Comparative figures are shown in the statement of financial position for 26 June 2022.

The Company has taken advantage of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' and financial reports. Amounts in this report have been rounded off in accordance with that Instrument to the nearest thousand dollars, or in certain cases to the nearest dollar.

Impact of change in accounting policy – Other

Several amendments and interpretations apply for the first time effective 26 June 2022, but have no impact on the half-year consolidated financial statements of the Group.

Other Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the reporting period ended 26 December 2022.

Note 3: Accounting estimates and judgements

The preparation of the half-year financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this report the significant estimates and judgements applied in the consolidated entity's accounting policies were consistent with those applied to the consolidated financial statements as at and for the year ended 26 June 2022.

Note 4: Revenue

	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Revenue from contracts with customers	254,865	239,066

Note 5: Other operating income

	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Gain on derivative instruments at fair value through profit or loss[i]	–	46

i. The Company enters into foreign exchange forward contracts for inventory purchases that settle in foreign currency. At 1H F22, the company measured the derivative through the profit and loss and recorded a gain of $0.046 million. At 1H F23, the company applies cash flow hedge accounting and measures the derivative assets through other comprehensive income to hedge its foreign currency risks.

Note 6: Profit for the period

	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable:		
Interest on lease liabilities	3,472	2,848
Interest on borrowings	715	450
Depreciation and amortisation	3,545	2,959
Depreciation on right of use asset	14,064	12,569
Occupancy expenses	1,607	1,573
Employee benefits expense	46,968	46,338

Depreciation and amortisation

Depreciation and amortisation is disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under 'Store expenses', 'Warehousing expenses', 'Administrative expenses' and 'Transformation Project expense' as detailed below:

Period ended 26 December 2022	As reported $'000	Depreciation and amortisation on PPE and Intangibles $'000	Depreciation on right of use asset $'000	Excluding Depreciation and amortisation $'000
Store expenses	(53,844)	2,738	12,338	(38,768)
Warehousing expenses	(5,937)	98	1,550	(4,289)
Administrative expenses	(19,085)	709	176	(18,200)
Transformation project expenses	(2,225)	–	–	(2,225)
Total	**(81,091)**	**3,545**	**14,064**	**(63,482)**

Period ended 26 December 2021	As reported $'000	Depreciation and amortisation on PPE and Intangibles $'000	Depreciation on right of use asset $'000	Excluding Depreciation and amortisation $'000
Store expenses	(47,774)	2,335	11,314	(34,125)
Warehousing expenses	(4,465)	84	1,086	(3,295)
Administrative expenses	(21,082)	540	159	(20,383)
Transformation project expenses	(2,749)	–	10	(2,739)
Total	**(76,070)**	**2,959**	**12,569**	**(60,542)**

Note 7: Other receivables

	26 Dec 2022 $'000	26 Jun 2022 $'000
Current		
Trade receivables	254	177
Other receivables	3,222	5,126
	3,476	5,303

There are no material receivables past due date.

Note 8: Inventories

	26 Dec 2022 $'000	26 Jun 2022 $'000
Finished goods	113,854	97,461
Less: Provision for shrinkage, obsolescence and mark-down	(930)	(794)
	112,924	96,667

The cost of inventories recognised as an expense during the half-year in respect of continuing operations was $160.171 million (26 December 2021: $145.171 million).

The Company's finished goods on hand were $113.854 million at the end of the half, up from $97.461 million at the end of June 2022. The increase from June is driven by following factors: CPI increases driven by input cost increases; new store inventory; NZ DC inventory and due to the cyclical nature of movements in working capital (the December finished goods inventory represents stock levels prior to the commencement of a significant promotional period, whereas the June finished goods inventory represents stock levels after the completion of a promotional period). This is a consistent timing difference that occurs each year between June and December. In addition to this normal cycle of inventory holdings pre and post promotional events, the inventory levels are also impacted each December by the scheduled annual shutdown of the suppliers during January and Chinese New Year. This requires inventory to be purchased ahead of time as access to inventory from manufacturers during this time is reduced.

Note 9: Other assets

	26 Dec 2022 $'000	26 Jun 2022 $'000
Prepayments	3,929	3,686
Right of return	861	1,452
	4,790	5,138

Note 10: Trade and other payables

	26 Dec 2022 $'000	26 Jun 2022 $'000
Current		
Trade payables	43,965	35,019
Sundry payables and accruals	10,980	17,536
	54,945	52,555

Note 11: Other liabilities

	26 Dec 2022 $'000	26 Jun 2022 $'000
Unredeemed gift cards and vouchers	3,911	3,472
Refund liability	1,352	2,250
Security deposit – car seat hire	104	63
	5,367	5,785

Note 12: Provisions

	26 Dec 2022 $'000	26 Jun 2022 $'000
Current		
Employee benefits	6,723	6,537
Non-current		
Employee benefits	1,033	745
Make-good provision	563	563
	1,596	1,308

Note 13: Borrowings

	26 Dec 2022 $'000	26 Jun 2022 $'000
Non-Current - Secured		
Bank Loan	31,164	12,946

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ('NAB'). The secured multi option facility matures on 30 March 2025.

The total facility limit as at balance date was $70,000,000, consisting of a single Corporate Market Loan ('CML') facility. The CML facility can be drawn to the lesser of $70,000,000 or 2.5 times the last 12 months historical rolling EBITDA. Interest on the facility is charged at a variable rate.

The consolidated entity was in compliance with the facility agreement at 26 December 2022. The current facility does not require the consolidated entity to amortise borrowings.

Note 14: Issued capital

	26 Dec 2022		26 Jun 2022	
	No. of shares	$'000	No. of shares	$'000
Fully paid ordinary shares				
Balance at beginning of the period	132,458,126	87,913	129,255,075	87,153
Issue of shares				
– Employee Gift Offer	277,182	782	135,051	760
– Vesting of LTI Plans	2,171,181	–	3,068,000	–
Balance at end of the period	**134,906,489**	**88,695**	**132,458,126**	**87,913**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Note 15: Dividends

	26 Dec 2022		26 Jun 2022	
	$ per ordinary share	$'000	$ per ordinary share	$'000
Recognised amounts				
Final prior year dividend	0.090	11,921	0.083	10,772
Unrecognised amounts				
Interim dividend	0.027	3,642	0.066	8,740

On 12 August 2022, the Directors determined to pay a fully franked final dividend of 9.0 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 26 June 2022. The dividend was subsequently paid to shareholders on 9 September 2022 totalling $11.921 million.

On 17 February 2023, the Directors determined to pay an interim fully franked dividend of 2.7 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 26 December 2022, to be paid to shareholders on 17 March 2023. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 3 March 2023. The total estimated dividend to be paid is $3.642 million.

Note 16: Segment information

Management has determined the operating segments based on the reports reviewed by the CEO and Managing Director (the chief operating decision maker as defined under AASB 8) that are used to make strategic and operating decisions. The CEO and Managing Director considers the business primarily from a geographic perspective. During the year, the Company sold products online to New Zealand customers and opened its first store in Auckland, with a plan to establish a store network in New Zealand. Until the opening of the first store in Auckland, online transactions were conducted in Australian dollars and were undertaken by Baby Bunting Pty Ltd. Since August 2022, operations in New Zealand have been conducted by Baby Bunting NZ Limited, a wholly-owned subsidiary of the Company. All transactions were in New Zealand dollar. On this basis management has identified two reportable segment, Australia and New Zealand.

The following is an analysis of the consolidated entity's revenue and results from continuing operations by reportable segment:

	Australia		New Zealand		Total	
	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000	Period ended 26 Dec 2022 $'000	Period ended 26 Dec 2021 $'000
Revenue	252,550	239,066	2,315	–	254,865	239,066
Operating EBIT	11,324	18,510	(2,213)	–	9,111	18,510
Total segment assets	358,911	338,758	11,958	–	370,869	338,758
Additions to plant and equipment and intangibles	4,189	6,666	969	–	5,158	6,666
Depreciation and amortisation	16,977	15,528	632	–	17,609	15,528
Total non-current assets[1]	222,840	207,239	7,694	–	230,534	207,239
Total segment liabilities	259,929	228,648	7,054	–	266,983	228,648

1. Non-current assets exclude net deferred tax assets.

Revenue reported above represents revenue generated from external customers.

The CEO and Managing Director assesses the performance of the operating segment based on a measure of Operating EBIT. This measurement basis excludes the effects of interest revenue, finance costs, income tax, equity expenses, other non-operating and associated indirect tax costs.

Operating EBIT

A reconciliation of Operating EBIT to profit before tax is provided as follows:

	Australia		New Zealand		Total	
	Dec 2022 $'000	Dec 2021 $'000	Dec 2022 $'000	Dec 2021 $'000	Dec 2022 $'000	Dec 2021 $'000
Operating EBIT	**11,324**	**18,510**	**(2,213)**	**–**	**9,111**	**18,510**
Finance costs	(4,061)	(3,298)	(126)	–	(4,187)	(3,298)
Employee share-based payments (inclusive of tax)	(252)	(4,736)	–	–	(252)	(4,736)
Profit/(loss) before tax	**7,011**	**10,476**	**(2,339)**	**–**	**4,672**	**10,476**

Segment assets and liabilities

The amounts provided to the CEO and Managing Director with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. The reportable segment's assets and liabilities are reconciled to total assets as follows:

	Australia		New Zealand		Total	
	Dec 2022 $'000	Jun 2022 $'000	Dec 2022 $'000	Jun 2022 $'000	Dec 2022 $'000	Jun 2022 $'000
Total segment assets	358,911	350,669	11,958	–	370,869	350,669
Total segment liabilities	259,929	235,948	7,054	–	266,983	235,948

Note 17: Reserves

a. Share-based payments

	26 Dec 2022 $'000	26 Jun 2022 $'000
Share-based payments		
Balance at beginning of period	15,782	8,954
Performance rights – expense (Note 17(b))	987	6,828
Performance rights – reversal (Note 17(b))	(1,673)	–
Balance at end of period	**15,096**	**15,782**

b. Performance rights

The consolidated entity has previously established a Long Term Incentive Plan (LTI Plan) involving the grant of performance rights. Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company. No dividends or voting rights are attached to performance rights prior to vesting. The number of rights that vest, across various grants, will be determined by reference to certain performance conditions that include:

- Earnings per share (EPS) growth;
- Total shareholder return (TSR) growth; and
- Service condition (Retention rights, EPS, TSR).

Fair value of performance rights granted

The weighted average fair value of the performance rights TSR component granted during the reporting period under the LTI Plan is $0.45 (26 December 2021: $1.89). The fair value of the TSR component of performance rights is determined at grant date using a Monte-Carlo simulation. For the non-market component (EPS CAGR and retention rights), the fair value is determined with reference to the share price of ordinary shares at grant date.

Performance rights series	Grant date	Grant date fair value	Exercise price	Expiry date
2022 – Series 1 (TSR CAGR)	23 November 2021	$1.89	nil	(1)
2022 – Series 1 (EPS CAGR)	23 November 2021	$5.81	nil	(1)
2023 – Series 1 (TSR CAGR)	21 November 2022	$0.45	nil	(1)
2023 – Series 1 (EPS CAGR)	21 November 2022	$2.56	nil	(1)

1. These performance rights vest and can be exercised at the end of the relevant service and performance period, subject to meeting the relevant performance condition. The Board determines whether vesting occurs. Any performance rights that have not vested following the final applicable performance period lapse.

	2023 – Series 1 TSR	2022 – Series 1 TSR
Grant date share price	$2.60	$5.49
Exercise price	Nil	Nil
Expected volatility	40%	40%
Expected life (years)	2.90	2.85
Dividend yield	3.00%	3.00%
Risk-free interest rate	3.20%	1.01%

Movements in performance rights during the period

The consolidated entity recorded a share-based payments benefit for performance rights of $0.686 million (26 December 2021: expense for performance rights of $3.750 million) disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under 'Administrative expenses'.

The following reconciles the performance rights outstanding at the beginning and end of the period:

	Period ended 26 December 2022			52 weeks ended 26 June 2022		
	TSR Number of rights	EPS Number of rights	Retention Number of rights	TSR Number of rights	EPS Number of rights	Retention Number of rights
Balance at beginning of the period	**3,310,500**	**3,035,500**	**–**	**3,737,500**	**3,737,500**	**564,000**
Granted during the period	822,000	548,000	–	825,000	550,000	–
Forfeited during the period	–	–	–	–	–	–
Exercised during the period	(1,015,681)	(1,155,500)	–	(1,252,000)	(1,252,000)	(564,000)
Lapsed during the period	(139,819)	–	–	–	–	–
Balance at end of period	**2,977,000**	**2,428,000**	**–**	**3,310,500**	**3,035,500**	**–**
Exercisable at end of period	**–**	**–**	**–**	**–**	**–**	**–**

c. General Employee Share Plan (GESP)

The consolidated entity previously established the GESP which is intended to be part of the consolidated entity's overall remuneration policy to reward Baby Bunting employees, from time to time. The GESP provides for grants of Shares to eligible employees of the consolidated entity up to a value determined by the Board.

During the current reporting period, the Board issued a total of 277,182 shares (26 December 2021: 135,051 shares) under the GESP with no monetary consideration payable by participating eligible employees. Shares issued were subject to a disposal restriction in accordance with current Australian tax legislation. The fair value of $0.782 million (26 December 2021: $0.760 million) was fully expensed at the time of granting, as there are no performance or service conditions.

d. Shared-based payments tax reserve

	26 Dec 2022 $'000	26 Jun 2022 $'000
Share-based payment tax reserve		
Balance at beginning of period	1,287	4,195
Tax effect of share-based payments[1]	(1,440)	741
Transfer to retained earnings[2]	155	(3,649)
Balance at end of period	**2**	**1,287**

1. $1.440 million (26 December 2021: increase in future income tax benefit of $2.055 million) represents a decrease in future income tax benefits recognised in share-based payment tax reserve that is in excess of any future benefits relating to the cumulative share-based payment expense recognised in profit or loss. This decrease in the reserve reflects the unlikelihood of performance rights vesting, relative to what was estimated as at the last reporting date, plus the addition of the 2023 performance rights granted to participants in December 2022 under the Company's Long Term Incentive Plan.
2. In 1H FY23, 2,171,181 performance rights (26 December 2021: 3,034,000 performance rights) vested under the Company's Long Term Incentive Plan (market value of $5.798 million (26 December 2021: $17.198 million)). The balance transferred to retained earnings represents the income tax payable recorded in the reserves associated with share-based payments that vested in the current period.

Note 18: Related party transactions

The immediate parent and ultimate controlling party of the consolidated entity is Baby Bunting Group Limited (incorporated in Australia).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

Loans to and from key management personnel and Directors

As at the end of the current reporting period, no loans were outstanding to or from key management personnel or directors of the consolidated entity (26 December 2021: nil).

Note 19: Subsequent events

Dividends on the Company's ordinary shares

An interim dividend of 2.7 cents per fully paid ordinary shares has been determined for the half-year ended 26 December 2022 - refer Note 15.

There have been no other events subsequent to the date of this report which would have a material effect on the half-year financial report of the consolidated entity as at 26 December 2022.

Directors' Declaration

In accordance with a resolution of the directors of Baby Bunting Group Limited (the Company), I state that:

In the opinion of the directors:

a. the financial statements and notes of the Company and its subsidiaries (collectively the Group) for the half-year ended 26 December 2022 are in accordance with the Corporations Act 2001, including:

   i. giving a true and fair view of the Group's financial position as at 26 December 2022 and of its performance for the half-year ended on that date; and

   ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Melanie Wilson
Chair

Melbourne
17 February 2023

Independent Auditor's Review Report

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's review report to the members of Baby Bunting Group Limited

Conclusion

We have reviewed the accompanying half-year financial report of Baby Bunting Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 26 December 2022, the statement of profit and loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the Corporations Act 2001, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 26 December 2022 and of its consolidated financial performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410). Our responsibilities are further described in the Auditor's responsibilities for the review of the half-year financial report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 26 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Building a better
working world

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Ernst & Young

Tony Morse
Partner

Melbourne
17 February 2023

BabyBunting®