11 August 2023

FY23 full year results release

MAINTAINING FOCUS ON MARKET SHARE GROWTH AND PROVIDING GREAT VALUE

- Total sales of $515.8 million, up 1.7% on the prior corresponding 52-week period (pcp)[1]
- Comparable store sales were down 3.6% (FY22: 5.0%)
- Online sales of $103.0 million, representing 20.0% of sales (pre-COVID: 11.8% of sales)
- Gross margin of 37.4% (down 118 bps vs pcp)
- Pro forma[1] group NPAT of $14.5 million (down 51.0% vs pcp)
- Statutory NPAT of $9.9 million (down 49.5% vs pcp)
- Net debt of $6.2 million at year end, with significant headroom in the Group's $70 million banking facility
- Fully franked dividend of 4.8 cents per share (full year 7.5 cents, down 51.9% vs pcp)

Baby Bunting's Acting CEO, Darin Hoekman said:

> "We have continued to grow market share and experienced positive sales growth despite the increasing macroeconomic factors impacting the retail sector. While our category is less discretionary, our customers are not immune to cost-of-living pressures and we experienced sales decline towards the end of the year as consumer spending slowed.
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> "We have a great range of products at entry-level pricing and beyond, which means we can provide great value to help our customers lower the costs of parenting.
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> "At a business level, we have moved to focus on lowering our cost of doing business and managing our working capital to align to sales and the ongoing uncertainty around the trading environment. We are holding the right levels of inventory with minimal seasonal and clearance stock. Our net debt is modest and we have plenty of headroom in our banking facility. We have taken steps in July to reduce overheads and to manage cost inflation in stores and in our supply chain.
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> "We will continue to invest for growth and our store network expansion will continue in FY24. Baby Bunting has the leading market position and enviable top-of-mind brand awareness. We will continue our focus on supporting new and expectants parents through the current environment."

Business performance

Baby Bunting Group Limited (Baby Bunting or the Group) reported a statutory net profit after tax of $9.9 million, down 49.5% on the prior year. On a pro forma[1] basis, net profit after tax was $14.5 million, down 51.0% on the prior 52-week period. Pro forma EBITDA was $31.2 million, down 38.2% on the prior 52-week period.

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1 Pro forma financial results exclude employee equity incentive expenses and significant costs associated with business transformation projects. FY23 was a 53-week retail financial year for the Group (27 June 2022 to 2 July 2023) and pro forma financial results also exclude week 53 sales and expenses to enable a comparison to prior 52-week financial years. Further information on the reconciliation of pro forma to statutory results is contained in section 2.5 of the Directors' Report dated 11 August 2023 and released to ASX on that date.

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Gross margin was 37.4%, noting that gross margin improved through the second half. Drivers of the margin improvement included the significant reduction in international shipping rates, domestic freight efficiencies, new ranges of private label products (now representing 9.0% of sales (FY22: 8.2%)) and changes to the loyalty program introduced towards the end of the first half.

Costs of doing business were up $16.5 million against the prior corresponding period, with the key contributors being new and annualising stores, cost inflation (including wage inflation) and one-off establishment costs associated with the marketplace and launching in New Zealand.

Initiatives to deliver cost savings

Baby Bunting has identified a range of initiatives to simplify elements of its operating model which will support net cost reductions out of the Group's existing cost base of around $6 million to $8 million in FY24.

New growth opportunities progressed: New Zealand and Marketplace

Baby Bunting's New Zealand operations have made considerable progress during FY23. The first store, at Albany, Auckland, opened in August 2022 and is now run rating at A$4.5 million in annualised sales with positive earnings contribution through the second half. Three new stores are anticipated to open in FY24, being Sylvia Park and Manukau to build out the network in Auckland and a store in Christchurch.

In June, we launched the Baby Bunting Marketplace. The marketplace enables third-party sellers to offer a curated range of products on babybunting.com.au. With more than 5,000 SKUs now available and plans to finish FY24 with 20,000 SKUs from 150 retail partners, the marketplace provides consumers with access to a broader range of products in the baby, kids and adjacent categories. The marketplace presents an exciting avenue for revenue diversification and growth.

Prudent capital management

Inventory levels finished the year at $98.0 million (FY22: $96.7 million). This total includes $7.3 million of inventory added for the seven new stores opened during FY23 and the New Zealand distribution centre.

Net debt was $6.2 million (FY22: net debt of $0.7 million) at the end of the year and the Group had $58 million headroom in its $70 million banking facility and considerable clearance in its banking covenants.

Sustainability

Today, Baby Bunting has also released its 2023 Sustainability Report which outlines the progress made on its sustainability initiatives, including reductions in emissions and packaging use as well as the support provided for its community partners. The report can be found at investors.babybunting.com.au.

Trading update and outlook

For the last 6 weeks of trade, total sales growth was negative 4.0% and comparable store sales were negative 9.0%. These results are cycling 19.3% and 15.3% in the prior corresponding period.

In addition to the seven new stores opened in FY23, Baby Bunting expects to open five new stores in FY24, with three new stores in New Zealand and two in Australia (Cranbourne and Maroochydore). With mature store ROIC[2] of more than 100%, the Group remains committed to its orderly store roll out strategy.

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[2] Return on Invested Capital is calculated as store EBITDA (pre AASB 16) divided by end-of-period cumulative store capital expenditure plus end-of-period store net inventory and an allocation of warehouse net inventory based on the number of stores open.

Noting the continued economic uncertainty and challenging trading environment, FY24 earnings guidance will not be given at this time.

Darin Hoekman concluded:

> "Baby Bunting has the leading position in our category and our strategy remains sound. We will continue to invest to grow and strengthen our market share with plans to open five new stores in Australia and New Zealand in FY24 and we will expand our product range and our marketplace offer."

Mark Teperson, the incoming Chief Executive Officer, will commence in his role on 2 October 2023.

Investor call

An investor call will be held at **9.15am (AEST)** on **Friday, 11 August 2023**. You may access the call by registering via:

https://registrations.events/signup/ID84142

The release of this announcement was authorised by the Board.

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