BabyBunting

14 August 2020

FY20 full year results release

SUPPORTING NEW AND EXPECTANT PARENTS TODAY. EXECUTING OUR STRATEGY FOR TOMORROW.

- **Total sales of $405.2 million, up 11.8% on the prior corresponding 52-week period (pcp)**
- **Comparable store sales[1] growth of 4.9% (1H 1.0%, 2H 10.5%)**
- **Online (including click & collect) growth of 39.1% (1H 10.5%, 2H 66.1%)**
- **Gross margin up 120 basis points to 36.2%**
- **Pro forma[2] EBITDA of $33.7 million, up 24.1% pcp**
- **Pro forma[2] NPAT was $19.3 million, up 34.1%. Statutory NPAT of $10.0 million, down 14%**
- **Baby Bunting did NOT qualify for, or receive, any JobKeeper support**
- **Fully franked final dividend of 6.4 cents per share (full year 10.5 cents)**
- **Store network plan updated: now targeting a store network of over 100 stores**
- **Comparable store sales growth for the first 6 weeks of 1H FY21 of 20.0%**

Baby Bunting's CEO & Managing Director, Matt Spencer said: "This year has been anything but normal and in that context Baby Bunting's performance has been very pleasing. I thank our Team and our supplier partners for their efforts in a time when supporting new and expectant parents was more important than ever.

"While the COVID-19 pandemic has presented some unexpected challenges, we remain very focused on executing on our growth strategy. Today, I announce an expansion of our store network plan to over 100 stores. We have plans to continue to expand our private label products. We have expanded our services business from car seat installation into car seat hire and soon will be extending that into other product categories. We have commenced shipping to customers in New Zealand and are undertaking an assessment of that market.

"Our website and digital performance has been strong and our investments in digital will continue. We have a road map to progressively transform the technologies that drive our digital channel and the ways in which our customers can interact with Baby Bunting.

"We are all adapting to the current circumstances and responding as new issues arise. However, we continue to look at the bigger picture. The strategic initiatives we are announcing today, and others being developed, are designed to set the groundwork for further growth in the years ahead."

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[1] Total sales generated from stores (including the online store) open at the start of the prior financial year.

[2] See "Comments on reporting" for details of how EBITDA and NPAT and pro forma results have been prepared.

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Business performance

Baby Bunting Group Limited (Baby Bunting or the Company) today reported statutory net profit after tax of $10.0 million. On a pro forma basis NPAT was $19.3 million, up 34.1% on the prior corresponding period and pro forma EBITDA was $33.7 million, up 24.1%.

Sales growth

Total sales were $405.2 million, representing growth of 11.8% (pcp).

Comparable store sales growth was 4.9% for the year, which consisted of 1.0% in the first half and 10.5% in the second half. The first half performance was affected by the issues associated with the performance of the Company's website and sales redirection arising from new stores opened in Sydney (4 new stores) and Melbourne (1 new store) since June 2018. The second half performance reflected the increasing traction with our digital marketing program and the improved online performance as well as the expansion of market share through our maternity and baby goods offer and the ability to provide that during COVID-19.

Our Net Promoter Score finished the year at 81, which reflects the engagement our customers have with the Baby Bunting brand as Australia's leading maternity and baby goods retailer.

Gross profit and gross margin

Pro forma gross profit for the year was $146.9 million, an improvement of 15.9% on the prior corresponding period. Gross profit margin has improved by a 120 basis points to be 36.2%.

The gross profit margin improvement has been achieved through increasing sales of higher margin private label and exclusive products, improvements in sourcing and achieving efficiency in our supply chain. In the second half, the COVID-19 pandemic affected our gross margin as a result of changes of product mix and sales channel selection. In particular, in the early stages of the pandemic we experienced panic buying of consumables, such as nappies and baby wipes as well as baby health products and an increase in customers relying on online delivery (which carries higher freight expenses).

Private Label and Exclusive Products grew 47.9% to be 36.5% of total sales compared to 27.6% in the prior corresponding period. Baby Bunting is tracking well to achieve its long-term target of 50% of sales coming from private label and exclusive products.

Operating expenses

The cost of doing business (on a pro forma basis) was 27.9% of sales for the year. Store expenses were in line with prior year as a percentage of sales. This metric improved across the year. We achieved leverage of 40 basis points in the second half on the back of first half efficiency initiatives. Overheads increased by 50 basis points, reflecting the incorporation of our Baby on Board services businesses, Customer Care contact centre, services and IT infrastructure to support future growth.

Digital and online

Online sales (including click and collect) grew 39.1%, making up 14.5% of total sales. Click and collect is around 50% of all online sales in catchments where Baby Bunting has a store (a metric that has increased to nearly 60% since April). This means more than 90% of all sales involve a customer store visit in these catchments.

We launched a new website platform in July 2019. As previously reported, the project experienced performance and customer experience issues and the decision was made to roll-back to the old website in November 2019. Following the roll-back, the online sales rate of growth stabilised and continued to improve during the second half. Baby Bunting recognised a non-cash impairment to the carrying value of its investment in digital commerce technologies of $3.2 million.

Responding to COVID-19

The emergence of the COVID-19 pandemic gave rise to a number of challenges during the year. Our focus continues to be ensuring the health and safety of our Team and our customers. Our response has included:

- introducing additional health and safety measures into stores and other operations, including physical distancing, customer number management in stores and expanding cleaning regimes as well as the introduction of contactless click and collect and our Helping Hand telephone assisted shopping service;
- introducing a paid COVID-19 leave policy to provide up to 2 weeks' paid leave for all team members (including casuals) to support team members who are unable to work due to COVID-19 (including when getting tested or isolating where awaiting a test result).

In the year, the Company incurred around $0.5 million in additional expenses due to COVID-19 relating to additional cleaning, personal protective equipment and higher absenteeism.

Acknowledging our Team

To recognise the efforts of our Team during the current pandemic, Baby Bunting will be providing full-time team members with $250 gifts and part-time and casual team members will receive $200 gifts. In addition, full-time and part-time team members will be provided with additional annual leave.

Later in the year, to further recognise and thank our Team who have supported our customers during the pandemic, Baby Bunting will also make available $1,000 of Baby Bunting shares to eligible team members under the Company's General Employee Share Plan. This will be the sixth consecutive annual offer under our plan.

Executing on our strategy for the future

Store network and updated store network plan

We opened three new stores during the year, being Westfield Doncaster (Vic), Wetherill Park (NSW) and Casula (NSW). There are now 56 Baby Bunting stores around Australia.

During the year we updated our store network plan. The Company is now looking to continue to grow its network of stores to over 100 stores (an increase from the previous network plan of over 80 stores). The Company plans to open four to eight new stores per year. In addition to our destination format stores, regional stores and our shopping centre formats, the Company is also considering alternative store formats.

In executing our long-term network plan, the Company will only select locations that meet its rigorous return on investment hurdles. The long-term target will also adjust and respond to any changes in future consumer behaviours and retail trends.

Progress on transformation projects

In the FY20 and FY21 periods, Baby Bunting is making significant investments in transformation projects to support future growth. Transformation projects being progressed include:

- the implementation of our new brand across the business;
- the development of a new loyalty program which is anticipated to launch in FY21;
- an expansion of our Baby on Board services business and ancillary services, into car seat hire and with a plan to expand into other product categories;
- as part of our supply chain strategy, we will be moving to a new purpose-built DC in Dandenong South to replace the existing facility which is expected to open in the second half of FY21.

New Zealand

After the end of the financial year, Baby Bunting commenced shipping online orders to New Zealand. Following on from this launch, an assessment of the New Zealand market is currently being undertaken.

Dividend

The Board has announced a final fully franked dividend of 6.4 cents per share (FY19: 5.1 cents per share). With the FY20 interim dividend of 4.1 cents per shares, the total dividend attributed to FY20 is 10.5 cents per share (FY19: 8.4 cents per share).

Outlook

Comparable store sales growth for the first 6 weeks of 2H (as at 9 August 2020) was 20.0%. Melbourne stores remain open under the Victorian stage 4 restrictions (which commenced on 6 August). However, there has been some sales moderation in Melbourne. Excluding Victoria (as at 9 August 2020), comparable store sales growth was 28.7%.

We anticipate opening 4 to 6 new stores in FY21, with three new stores in 1H FY21.

There will be further investment in digital channels to grow sales as well as investments in supply chain to deliver gross margin expansion.

The COVID-19 pandemic continues to create significant uncertainty, with the risk that trading conditions will fluctuate greatly throughout the year. Accordingly, no guidance about FY21 earnings can be given at this time.

Comments on reporting

Pro forma EBITDA and NPAT both exclude the significant costs associated with business transformation projects. They also exclude the non-cash impairment of the carrying value of the Company's investment in its digital commerce technologies of $3.2m and the impairment of brand assets (as part of the brand modernisation) of $2.6m. Pro forma EBITDA also excludes the impact of AASB 16 lease accounting. This information is presented on a pro forma basis to better demonstrate the underlying trading performance of the business and, in the case of AASB 16, to aid comparisons with prior periods. Further information on the reconciliation of pro forma to statutory results are contained in section 2.5 of the Directors' Report dated 14 August 2020 and released to ASX on that date.

Investor conference call

A presentation and a discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.15am (AEST)** on **Friday, 14 August 2020**. You may access the call by registering via:

http://apac.directeventreg.com/registration/event/4943379

Upon registering you will be provided with dial in numbers and a passcode.

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The release of this announcement was authorised by the Board.

For further information, please contact:

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