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ASX Market Announcements Office
Australian Securities Exchange

BUSINESS UPDATE

Baby Bunting Group Limited (Baby Bunting) today provides a business update.

Focus on our teams and customers

Baby Bunting's CEO and Managing Director, Matt Spencer said since the introduction of public health restrictions our top priority has been the health and safety of customers and Team Members and noted that as restrictions start to ease we have seen customers increasing in number.

"Supporting new and expectant parents and providing them with the essential products and services they need is at the core of what we do. There are around 6,000 babies born in Australia each week and we are critically aware of how important it is to provide support to new and expectant parents at a time when they face additional challenges brought about by social distancing requirements.

"All Baby Bunting stores have remained open throughout the current period, but we have adapted how we work, and how we service and support our customers. There are a number of social distancing and hygiene measures that are now a part of how our store and support teams operate. We thank our customers for continuing to support these measures. We have introduced no contact click & collect as well as our Helping Hand telephone assisted shopping service, to provide choice in how and when our customers choose to shop with us."

Business performance

Since the last update on 23 March 2020, sales growth has continued. During the second half (30 December 2019 to 17 May 2020):

- total sales growth is 13.2%;
- comparable store sales growth is 8.1%; and
- online sales are 17.3% of total sales, representing growth of around 66% on the prior corresponding period.

On a year-to-date basis:

- total sales growth is 10.3%;
- comparable store sales growth is 3.4%; and
- online sales are 14.3% of total sales, representing growth of around 34% on the prior corresponding period.

Our sales performance reflects the less discretionary nature of the baby category and we have welcomed many new customers to our brand in these difficult times.

Our online channel has performed well with online sales increasing from 12.4% of all sales before 23 March 2020 to 22.4% of sales through the following two month period to 17 May 2020. This represents an increase in online sales for that period of 121% year-on-year. Our no contact click and collect service has been well received with around 42% of all online orders ending up as click and collect transactions at our stores. Online sales come at a lower gross margin due to higher freight fulfilment costs relative to in-store sales.

Matt Spencer said: "Initially during the period of public health restrictions, there was strong demand for lower margin consumable products, including nappies and baby wipes. As the period has progressed, we have seen increases in purchases of products for the nursery, such as cots and furniture, toys and playgear, and bedding. We did see lower transactions in travel-related products such as prams and car seats. However, as restrictions have eased, sales of these products have begun to recover.

"It is difficult to anticipate how these buying trends will play out over the coming period and how gross margin will be impacted. In addition to this, we have seen costs increase to manage the changed operating environment."

In respect of stores, individual store performances have been mixed. Stores located in shopping centres and selected stores in Victoria and New South Wales have been affected by lower foot traffic.

Business initiatives

Since the last update in March, Baby Bunting has undertaken a number of initiatives to support new and expectant parents, including:

- commissioning another online fulfilment hub at Casula (NSW) (joining the hubs at Cannington (WA) and Hobart (Tas)) and turning on the capability for online fulfilment across an additional 7 stores throughout Victoria, New South Wales, Queensland and South Australia. These hubs and fulfilment stores assist to facilitate prompt delivery of online orders to our customers. Our long-term goal is to fulfil 90% of metro online orders same day. We have made significant progress towards achieving this goal;
- initiating the "Helping Hand" assisted telephone shopping service. This service enables parents-to-be and new parents to register to receive a personalised shopping experience over the telephone with an experienced Team Member from their local store;
- building on our commitment to providing value to the customer, every day, every visit. To strengthen our value proposition, we have launched Our Price Promise: if a customer finds a lower priced identical competitor's stocked item, Baby Bunting will beat the price by 5%. With everything else that new and expectant parents are concerned about, price at Baby Bunting should not be one of them; and
- working to adapt Baby Bunting's online offering to facilitate cross-border sales. This capability is expected to be available towards the end of the financial year. In the short term, this initiative is not expected to materially contribute to sales.

Capex program

Baby Bunting made some adjustments to its capital expenditure program and introduced a prudent cost management program in March and April in anticipation of potential future cash flow pressures. As the impact of the COVID-19 pandemic on financial performance has become clearer, the decision has been made to recommence the capital expenditure that had been

paused. These costs are primarily associated with the roll-out of the new brand across the full store network, which is expected to be completed by the end of Q1 FY2021.

Digital roadmap

As noted above, Baby Bunting's e-commerce platform has performed very well during the current period. Investment in digital has been a key part of Baby Bunting's strategy over the last few years and it will continue to be a significant focus for investment in the years ahead.

Baby Bunting needs to migrate from its current Magento 1 e-commerce site in the next 12 months and it intends to move to a headless e-commerce architecture. This will enable Baby Bunting to leverage best of breed applications to deliver a world class customer experience through the digital channel. For a number of years, Baby Bunting's IT approach has utilised integration layer software to manage the interaction of data between its different applications which provides greater flexibility and ease of development. A headless approach to digital is a continuation of this technology approach.

As a consequence of this change in e-commerce technical architecture, Baby Bunting expects to recognise in its FY20 results a non-cash impairment to the carrying value of its investment in digital commerce technologies in the range of approximately \$2 million to \$3 million.

Outlook

On 23 March 2020, Baby Bunting withdrew its FY20 guidance due to the increasing uncertainty arising from the unknown potential impact of COVID-19.

Throughout this period, Baby Bunting stores have remained open to continue to support new and expectant parents, noting the essential nature of the goods and services Baby Bunting provides. Nevertheless, as Baby Bunting enters the final part of the financial year (our largest and most important promotional period), it remains difficult to anticipate consumer behaviour in the current environment and the associated effect on sales, gross margin and the cost of doing business. Accordingly, no guidance will be provided for FY20.

Baby Bunting's balance sheet remains strong with approximately \$35 million in undrawn debt facilities.

Matt Spencer said, "I am incredibly appreciative of the efforts of our Team Members across stores, our Distribution Centre, Customer Care Centre and Store Support Office, who have all had to adapt to new ways of working. The positive sales performance is a reflection of the real commitment by the Team to ensuring Baby Bunting continues to support new and expectant parents in the early years of parenthood, for which I sincerely thank them."

This document has been authorised for release to ASX by the Board.

For further information, please contact:

Darin Hoekman
Chief Financial Officer
Ph: 03 8795 8100