Baby Bunting Group Limited

ABN 58 128 533 693

Appendix 4D

Financial report for the half-year ended 27 December 2020

Appendix 4D
(Rule 4.2A.3)

Baby Bunting Group Limited
ABN 58 128 533 693

For the half-year ended:	26 weeks ended 27 December 2020
Previous corresponding period:	26 weeks ended 29 December 2019

Results for announcement to the market

Statutory Financial Results	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	217,320	186,389	30,931	16.6%
Net profit from ordinary activities after tax (attributable to members)	7,486	4,838	2,648	54.7%
Net profit attributable to members	7,486	4,838	2,648	54.7%

Pro Forma Financial Results	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	217,320	186,389	30,931	16.6%
Net profit from ordinary activities after tax (attributable to members)	10,783	7,514	3,269	43.5%
Net profit attributable to members	10,783	7,514	3,269	43.5%

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 27 December 2020 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).

Appendix 4D
(Rule 4.2A.3)

26 weeks ended 27 December 2020 $'000	Sales	NPAT
Statutory results	**217,320**	**7,486**
Employee equity incentive expenses[1,2,3]	-	3,666
Transformation project expenses[4,5]	-	2,692
Other income[6]	-	(2,400)
Other expenses[7]	-	1,091
Tax impact from pro forma adjustments	-	(1,752)
Pro forma results	**217,320**	**10,783**

[1] Expense reflects the cost amortisation of performance rights (LTI) on issue in the current reporting period.

[2] The Company issued 165,221 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 ($0.795 million).

[3] The Company made a $2.774 million cash incentive payment to participating executives in connection with EPS performance rights (assessed over the period FY16 to FY20) granted by the Company in October 2015 as part of the Company's Long Term Incentive Plan. This plan involves the issue of shares, however due to a timing difference between the $3.215 million impairment of certain digital assets in June 2020 and the receipt of a $2.400 million settlement payment from the vendor of those assets (refer Note (6) below – Other Income), the original performance rights lapsed. If not for this timing difference, the compound annual growth rate of the Company's EPS measured over the FY16 to FY20 performance period would have been 16.2% which would have resulted in 25.5% of the EPS performance rights vesting. The Board had regard to the significant earnings per share growth achieved since the Company's IPO, as well as the direct connection between the impairment of the digital assets and the settlement payment recovered by the Company shortly after the end of the performance period. On this basis, the Board determined to provide a benefit to participating executives calculated by reference to the EPS performance rights that would have vested if the recovery were received during FY20. A share price of $4.09 was used to calculate the cash payments (based on 678,438 rights that would have otherwise vested). The share price was determined by reference to a VWAP of the Company's shares in the period 1 July to 30 September 2020.

[4] 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 ($1.572 million) non-capital costs associated with the implementation of a merchandise demand planning and replenishment system, order fulfilment systems, Loyalty system, People systems and assessment of digital technology assets.

[5] Other transformation project expenses ($1.120 million) include external consultant costs associated with the setup of the new National Distribution Centre ($0.172 million) and project management costs ($0.524 million) to deliver the transformation projects.

[6] The Company received a cash payment ($2.400 million) from the vendor of certain digital commerce technology assets that were impaired in FY20 following settlement of a dispute relating to those assets.

[7] During the half, the Company responded to an interception of insects found in packaging of goods in an imported shipping container. Working closely with the Federal Department of Agriculture, Water and the Environment, the Company implemented a number of actions in accordance with Departmental requirements, including the treatment of all store rooms where the affected stock was held and the Distribution Centre and fumigation of some inventory. This resulted in some short term increases to supply chain costs and one-off costs of treatment and fumigation costs and customer remediation costs. These issues have now been resolved. The Company anticipates that the majority of costs associated with this incident will be recovered through its insurance policies in the second half of FY21.

The following table reconciles the statutory results to pro forma financial results for the period ended 29 December 2019 (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards):

26 weeks ended 29 December 2019 $'000	Sales	NPAT
Statutory results	**186,389**	**4,838**
Employee equity incentive expenses[1,2]	-	1,979
Transformation project expenses[3,4,5]	-	1,275
Tax impact from Pro Forma adjustments	-	(578)
Pro forma results	**186,389**	**7,514**

[1] Expense reflects the cost amortisation of performance rights (LTI) on issue in the period ($1.327 million).

[2] The Company issued 185,134 shares under its General Employee Share Plan in the period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.652 million).

[3] The Company was undertaking an assessment and where necessary, the replacement of its core information technology systems. In 1H FY20, the Company incurred ($0.311 million) non-capital costs associated with the implementation of a merchandise forecasting and replenishment system. The Company's review of core systems is anticipated to continue through FY21.

[4] In 1H FY20, the Company incurred ($0.214 million) costs in relation to scoping and building a new loyalty program aimed at enhancing the Company's relationship with its customers.

[5] Other transformation project expenses ($0.750 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.157 million) and project management costs ($0.342 million) to deliver the transformation projects.

Appendix 4D
(Rule 4.2A.3)

Dividends

	Amount per security (cps)	Franked amount
Dividends paid		
Final 2020 dividend – paid 11 September 2020	6.4	100%
Dividends determined		
Interim dividend – current period	5.8	100%
Record date for determining entitlements to the dividend	26 February 2021	
Date dividend is payable	12 March 2021	

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 27 December 2020, 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

Net tangible assets per ordinary share	**27 December 2020 $**	**29 December 2019 $**
Net tangible assets per ordinary share	0.36	0.34

Details of entities over which control has been gained or lost

Not applicable for the half-year ended 27 December 2020.

Other information

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

Baby Bunting Group Limited

ABN 58 128 533 693

Financial Report for the half-year ended 27 December 2020

Financial Report
for the half-year ended 27 December 2020

CONTENTS

Directors' Report

The Directors of Baby Bunting Group Limited (the Company or Baby Bunting) submit the statutory reports of the Company and its controlled entities (the consolidated entity) for the half-year ended 27 December 2020.

Directors

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

Mr Ian Cornell
Mr Matthew Spencer
Mr Gary Levin
Ms Melanie Wilson
Ms Donna Player
Mr Gary Kent

The above named Directors held office during the whole of the half-year and since the end 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'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;
- Investment 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.

During the half, the Company continued to implement its strategy of growing market share from existing stores and its online store as well as growing its network of stores. Progress on other key strategic aspects during the half included further investment and progress toward transitioning to a headless digital architecture and general enhancements around the digital customer experience. The Company has also completed a strategic review of the New Zealand baby market with a view to execute on an omni-channel entry into this market in FY22.

Key operational achievements for the Company in 1H FY21 included:

- Private label and exclusive product expansion which continues to deliver value for customers and increased gross margins with sales growth of 28.2%. These products now represents 39.0% of sales (35.5% in the prior corresponding period). The Company continues to see strong growth in its "4baby" private label brand as well as the "Bilbi" private label product in the soft goods category.
- Opening three new stores, two shopping centre format stores in Knox (VIC) and Castle Towers (NSW) as well as a new format regional store in Coffs Harbour (NSW).
- Car seat installation services offered across all Baby Bunting stores delivering growth of 47% in car seat fitting sales. Expanding the services offering to include capsule and breast pump hire as well as car seat repair and furniture assembly.
- Completed strategic review of the New Zealand baby market with a view to execute on an omni-channel entry into this market in FY22.
- Launch of the new Loyalty program "Baby Bunting family" with strong uptake from existing and new customers. The program offers a range of benefits to our customers as well as supporting them through each stage of their journey.

Directors' Report

Review of the Company's financial performance

The half-year statutory results for the 26 week period ended 27 December 2020 (1H FY20: period ended 29 December 2019) are summarised below:

- Total sales were $217.320 million, an increase of 16.6% against the prior corresponding period;
- Gross profit of $81.189 million up 17.9% against the prior corresponding period. Gross margin increased by 41 basis points to 37.4%;
- Statutory net profit after tax (NPAT) of $7.486 million, an increase of 54.7% against the prior corresponding period;
- Statutory basic earnings per share (EPS) of 5.9 cents, an increase of 55.3% against the prior corresponding period;
- Net debt of $14.534 million (versus net cash of $13.337 million at the end of FY20) – driven by a short-term increase in working capital as the Company was holding higher inventory ahead of significant sales and promotional periods and to provide some protection at a time of global supply chain disruption.

The Company's financial results were achieved without the support of any JobKeeper allowances or subsidies.

Pro forma financial results have been calculated to exclude the impact of employee equity incentive expenses, significant transformation project expenses, the income tax benefit received due to the issue of shares that vested under the Long Term Incentive Scheme and a one-off cash payment received by the Company from the vendor of certain digital commerce technology assets that were impaired in FY20 following settlement of a dispute relating to those assets. This has been done to more clearly represent the consolidated entity's underlying earnings.

On a pro forma basis, the 1H FY21 financial results were:

- Total sales grew 16.6% to $217.320 million; with comparable store sales growth of 15.0%;
- Pro forma NPAT of $10.783 million, an increase of 43.5% on the prior corresponding period;
- Pro forma cost of doing business was $62.688 million or 28.8% of total sales, an improvement of 45 basis points on the prior corresponding period (CODB 29.3% of sales in 1H FY20).

The Company continued to execute on its strategy and grew market share delivering sales of $217.320 million representing growth of 16.6% for the half (against the prior corresponding period). This sales growth was achieved from existing stores, online sales, three new stores opened in 1H FY21 and the annualising stores opened in FY20.

There was strong comparable store sales growth in 1H FY21 of 15.0%. Total online sales (including click & collect) grew 95.9% on the prior corresponding period with click & collect in particular being a strong driver of sales growth with an increase on the prior corresponding period of 218%. Online sales now represent 19.7% of total sales (up from 11.7% in 1H FY20).

Sales from private label and exclusive products grew 28.2% (against the prior corresponding period) and now represent 39.0% of total sales (up from 35.5% in 1H FY20). This growth has come from the support of suppliers expanding the range of their products sold exclusively to Baby Bunting, the addition of products to our existing 4Baby private label range and annualising the launch of our new Bilbi private label brand which is now a year old. Key categories where exclusive product ranges have expanded significantly include Pram, Cots & Furniture and Car Safety (ie car seats).

Pro forma Cost of Doing Business (CODB) expenses (excluding the impact of AASB 16 lease accounting) as a percentage of sales improved by 45 bps above to 28.8% of sales (29.3% of sales in 1H FY20). Pro forma CODB expenses were $62.688 million ($54.601 million in the prior corresponding period). The increase in business expenses primarily relate to the opening of three new stores in 1H FY21 as well as three stores opened in FY20. The business continues to invest in the Support Office team, business processes as well as IT systems and infrastructure ensuring it is appropriately supported for future growth. Costs associated with the COVID-19 pandemic of $1.0 million were incurred to ensure all stores and workplaces across Australia were COVID-safe and to ensure exposure and risk to our Team and customers was minimised. All stores remained open and traded throughout the half.

Directors' Report

Dividends

The Company paid a fully franked final dividend of 6.4 cents per share, in respect of the 2020 financial year, on 11 September 2020 totalling $8.164 million. The Directors have determined to pay an interim fully franked dividend of 5.8 cents to be paid on 12 March 2021 (with a record date of 26 February 2021).

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**
Operating EBIT	Excludes the effects of interest revenue, finance costs, income tax, equity expenses, other non-operating and associated indirect tax costs. The CEO and Managing Director assesses the performance of the only operating segment (Australia) based on a measure of Operating EBIT.

Directors' Report

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 27 December 2020 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).

26 weeks ended 27 December 2020 $'000	Sales	NPAT
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Directors' Report

The following table reconciles the statutory results to pro forma financial results for the prior comparable period ended 29 December 2019 (noting that this financial information has not been reviewed in accordance with Australian Auditing Standards):

26 weeks ended 29 December 2019 **$'000**	**Sales**	**NPAT**
Statutory results	**186,389**	**4,838**
Employee equity incentive expenses[1,2]	-	1,979
Transformation project expenses[3,4,5]	-	1,275
Tax impact from underlying adjustments	-	(578)
Pro forma results	**186,389**	**7,514**

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3 The Company was undertaking an assessment and where necessary, the replacement of its core information technology systems. In 1H FY20, the Company incurred ($0.311 million) non-capital costs associated with the implementation of a merchandise forecasting and replenishment system. The Company's review of core systems is anticipated to continue through FY21.

4 In 1H FY20, the Company incurred ($0.214 million) costs in relation to scoping and building a new loyalty program aimed at enhancing the Company's relationship with its customers.

5 Other transformation project expenses ($0.750 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.157 million) and project management costs ($0.342 million) 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 7.

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

Ian Cornell

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Ian Cornell

Chairman

Melbourne: 12 February 2021

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Building a better working world

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 27 December 2020, 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; and

(b) no contraventions of 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
12 February 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the half-year ended 27 December 2020

	Note	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Revenue	4	217,320	186,389
Cost of sales		(136,131)	(117,521)
Gross profit		**81,189**	**68,868**
Finance income		-	4
Other income	5	2,400	-
Store expenses	6	(43,097)	(39,746)
Marketing expenses		(3,591)	(3,225)
Warehousing expenses	6	(2,850)	(2,255)
Administrative expenses	6	(17,072)	(12,162)
Other expenses	6	(1,091)	-
Transformation project expenses		(2,692)	(1,275)
Finance costs	6	(2,694)	(2,855)
Profit before tax		**10,502**	**7,354**
Income tax expense		(3,016)	(2,516)
Profit after tax		**7,486**	**4,838**
Other comprehensive income for the period		-	-
Total comprehensive income for the period		**7,486**	**4,838**
Profit for the period attributable to:			
Equity holders of Baby Bunting Group Limited		**7,486**	**4,838**
Earnings per share			
From continuing operations			
Basic (cents per share)		5.9	3.8
Diluted (cents per share)		5.6	3.8

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

Condensed Consolidated Statement of Financial Position
as at 27 December 2020

	Note	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Current assets				
Cash and cash equivalents		14,653	13,337	10,419
Other receivables	7	4,374	5,122	3,899
Inventories	8	92,791	65,094	80,810
Current tax assets		4,110	-	-
Other assets	9	4,108	2,516	1,527
Total current assets		**120,036**	**86,069**	**96,655**
Non-current assets				
Plant and equipment		28,016	22,482	26,296
Intangibles		3,414	3,690	4,482
Goodwill		45,321	45,321	45,321
Right of use asset		93,292	93,504	100,262
Deferred tax assets		6,139	7,195	6,632
Total non-current assets		**176,182**	**172,192**	**182,993**
Total assets		**296,218**	**258,261**	**279,648**
Current liabilities				
Trade and other payables	10	55,961	49,950	45,416
Other liabilities	11	3,064	1,957	1,887
Current tax liabilities		-	1,305	1,259
Lease liabilities		24,880	24,895	29,373
Provisions	12	5,818	5,137	4,477
Total current liabilities		**89,723**	**83,244**	**82,412**
Non-current liabilities				
Borrowings	13	29,187	-	21,111
Lease liabilities		81,165	81,083	82,797
Provisions	12	650	565	504
Total non-current liabilities		**111,002**	**81,648**	**104,412**
Total liabilities		**200,725**	**164,892**	**186,824**
Net assets		**95,493**	**93,369**	**92,824**
Equity				
Issued capital	14	87,153	86,358	86,358
Reserves	17	4,451	4,380	3,753
Retained earnings		3,889	2,631	2,713
Total equity		**95,493**	**93,369**	**92,824**

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

Condensed Consolidated Statement of Changes in Equity

for the half-year ended 27 December 2020

	Issued Capital $'000	Share Based Payments Reserve $'000	Profit Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 30 June 2019	85,706	2,515	-	4,323	92,544
Profit for the period	-	-	-	4,838	4,838
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	4,838	4,838
Issue of shares	652	-	-	-	652
Dividends	-	-	-	(6,448)	(6,448)
Share based payment	-	1,238	-	-	1,238
Balance at 29 December 2019	**86,358**	**3,753**	**-**	**2,713**	**92,824**
Balance at 28 June 2020	86,358	4,380	-	2,631	93,369
Profit for the period	-	-	-	7,486	7,486
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	7,486	7,486
Issue of shares (Note 14)	795	-	-	-	795
Dividends (Note 15)	-	-	-	(8,164)	(8,164)
Share based payment (Note 17)	-	71	-	-	71
Tax benefit arising on issue of shares to employees (Note 17)	-	-	1,936	-	1,936
Transfer to retained earnings	-	-	(1,936)	1,936	-
Balance at 27 December 2020	**87,153**	**4,451**	**-**	**3,889**	**95,493**

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

Condensed Consolidated Statement of Cash Flows

for the half-year ended 27 December 2020

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Cash flows from operating activities		
Receipts from customers	238,004	202,702
Payments to suppliers and employees	(231,986)	(189,510)
Income tax paid	(5,435)	(3,763)
Interest received	-	4
Finance costs paid	(2,579)	(2,855)
Net cash (used in) / from operating activities	**(1,996)**	**6,578**
Cash flows from investing activities		
Payments for plant and equipment and intangibles	(7,922)	(3,938)
Net cash used in investing activities	**(7,922)**	**(3,938)**
Cash flows from financing activities		
Lease payments	(9,789)	(9,592)
Dividends paid	(8,164)	(6,448)
Proceeds from borrowings	29,187	17,978
Net cash provided by financing activities	**11,234**	**1,938**
Net increase / (decrease) in cash and cash equivalents	1,316	4,578
Cash and cash equivalents at beginning of the period	13,337	5,841
Cash and cash equivalents at end of the period	**14,653**	**10,419**

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

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

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 955 Taylors Road, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the half-year ended 27 December 2020 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 26 week retail calendar for financial reporting purposes which ended on 27 December 2020. The prior half year was a 26 week retail calendar ending on 29 December 2019.

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 28 June 2020 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 12 February 2021.

(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 2020 annual financial report for the year ended 28 June 2020, except for the impact of the adoption of the new and revised accounting policies discussed below.

Comparative figures are shown in the statement of financial position for 28 June 2020 and 29 December 2019.

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.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 2: Summary of significant accounting policies (cont'd)

(c) Changes in accounting policies and disclosures

Several amendments and interpretations apply for the first time effective 29 June 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting
AASB 2019-1 Amendments to AASs – References to the Conceptual Framework
AASB 2018-6 Amendments to AASs – Definition of a Business
AASB 2019-3 Amendments to AASs – Interest Rate Benchmark Reform [Phase 1]
AASB 2018-7 Amendments to AASs – Definition of Material
AASB 2019-5 Amendments to AASs – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia

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 28 June 2020.

Note 4: Revenue

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Revenue from contracts with customers	217,320	186,389

Note 5: Other income

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Other income	2,400	-

The Company received a cash settlement payment ($2.400 million) from the vendor of certain digital commerce technology assets that were impaired in FY20 following a dispute in relation to the performance of these assets.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 6: Profit for the period

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable:		
Interest on lease liabilities	2,335	2,462
Interest on borrowings	359	393
Depreciation and amortisation	2,663	2,701
Depreciation on right of use asset	10,614	9,686
Occupancy expenses	1,322	1,385
Employee benefits expense	40,291	33,220

Depreciation and amortisation

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

26 weeks ended 27 December 2020	As reported $'000	Depreciation and amortisation on PPE $'000	Depreciation on right of use asset $'000	Excluding Depreciation and amortisation $'000
Store expenses	(43,097)	2,145	10,149	(30,803)
Warehousing expenses	(2,850)	82	358	(2,410)
Administrative expenses	(17,072)	436	107	(16,529)
Total	**(63,019)**	**2,663**	**10,614**	**(49,742)**

26 weeks ended 29 December 2019	As reported $'000	Depreciation and amortisation on PPE $'000	Depreciation on right of use asset $'000	Excluding Depreciation and amortisation $'000
Store expenses	(39,746)	2,297	9,299	(28,150)
Warehousing expenses	(2,255)	94	102	(2,059)
Administrative expenses	(12,162)	310	285	(11,567)
Total	**(54,163)**	**2,701**	**9,686**	**(41,776)**

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 6: Profit for the period (cont'd)

Other expenses

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Other expenses	1,091	-

During the half, the Company responded to an interception of insects found in packaging of goods in an imported shipping container. Working closely with the Federal Department of Agriculture, Water and the Environment, the Company implemented a number of actions in accordance with Departmental requirements, including the treatment of all store rooms where the affected stock was held and the Distribution Centre and fumigation of some inventory. This resulted in some short term increases to supply chain costs and one-off costs of treatment and fumigation costs and customer remediation costs. These issues have now been resolved. The Company anticipates that the majority of costs associated with this incident will be recovered through its insurance policies in the second half of FY21.

Note 7: Other receivables

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Current			
Trade receivables	324	200	172
Other receivables	4,050	4,922	3,727
	4,374	5,122	3,899

There are no material receivables past due date.

Note 8: Inventories

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Finished goods	93,867	65,766	81,550
Less: Provision for shrinkage, obsolescence and mark-down	(1,076)	(672)	(740)
	92,791	65,094	80,810

The cost of inventories recognised as an expense during the half-year in respect of continuing operations was $136.131 million (29 December 2019: $117.521 million).

The Company's finished goods on hand were $93.867 million at the end of the half, up from $65.766 million at the end of June 2020. The increase from June is driven by two factors. The first is due to the cyclical nature of retail and associated 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.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 9: Other assets

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Prepayments	3,654	1,929	1,098
Right of return	454	587	429
	4,108	2,516	1,527

Note 10: Trade and other payables

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Current			
Trade payables	41,126	36,110	34,331
Sundry payables and accruals	14,835	13,840	11,085
	55,961	49,950	45,416

Note 11: Other liabilities

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Unredeemed gift cards	2,322	1,048	1,213
Refund liability	742	909	674
	3,064	1,957	1,887

Note 12: Provisions

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Current			
Employee benefits	5,818	5,137	4,477
Non-current			
Employee benefits	650	565	504

Note 13 Borrowings

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Non-Current - Secured			
Bank Loan	29,187	-	21,111

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ("NAB"). The secured multi option facility matures on 31 July 2022. On 23 July 2020, this facility was increased from $58,000,000 to $78,000,000. Security consists of a Deed of Charge over the assets of Baby Bunting Pty Ltd. The Company is a guarantor to the facility.

The total facility limit as at balance date was $78,000,000, consisting of $70,000,000 Corporate Market Loan ("CML") facility and $8,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of $70,000,000 or 2.25 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 27 December 2020. The current facility does not require the consolidated entity to amortise borrowings.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 14: Issued capital

	27 Dec 2020 No. of shares	27 Dec 2020 $'000	28 June 2020 No. of shares	28 June 2020 $'000	29 Dec 2019 No. of shares	29 Dec 2019 $'000
Fully paid ordinary shares						
Balance at beginning of the period	127,564,474	86,358	126,441,237	85,706	126,441,237	85,706
Issue of shares						
- Employee Gift Offer	165,221	795	185,134	652	185,134	652
- Vesting of TSR Shares	1,525,380	-	938,103	-	938,103	-
Balance at end of the period	**129,255,075**	**87,153**	**127,564,474**	**86,358**	**127,564,474**	**86,358**

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

Note 15: Dividends

	27 Dec 2020 $ per ordinary share	27 Dec 2020 $'000	28 Jun 2020 $ per ordinary share	28 Jun 2020 $'000
Recognised amounts				
2020 Final fully franked dividend - Paid 11 September 2020	0.064	8,164	0.051	6,448
Unrecognised amounts				
Interim dividend	0.058	7,497	0.041	5,230

On 14 August 2020, the Directors determined to pay a fully franked final dividend of 6.4 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 28 June 2020. The dividend was subsequently paid to shareholders on 11 September 2020 totalling $8.164 million.

On 12 February 2021, the Directors determined to pay an interim fully franked dividend of 5.8 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 27 December 2020, to be paid to shareholders on 12 March 2021. The dividend has not been included as a liability in these condensed consolidated financial statements. The record date for determining entitlements to the dividend is 26 February 2021. The total estimated dividend to be paid is $7.497 million.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

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. On this basis management has identified one reportable segment, Australia. The consolidated entity does not operate in any other geographic segment.

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

	Australia		Total	
	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Revenue	217,320	186,389	217,320	186,389
Operating EBIT	19,554	13,459	19,554	13,459
Total segment assets	296,218	279,648	296,218	279,648
Additions to plant and equipment and intangibles	7,922	3,938	7,922	3,938
Depreciation and amortisation	13,277	12,387	13,277	12,387
Total non-current assets[1]	170,043	176,361	170,043	176,361
Total segment liabilities	200,725	186,824	200,725	186,824

[1] Non-current assets exclude deferred tax assets and deferred tax liabilities.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current reporting period (29 December 2019: nil).

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:

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Operating EBIT	**19,554**	**13,459**
Finance income	-	4
Transformation project expenses	(2,692)	(1,275)
Finance costs	(2,694)	(2,855)
Employee share based payments (inclusive of indirect tax)	(3,666)	(1,979)
Profit before tax	**10,502**	**7,354**

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 16: Segment information (cont'd)

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:

	27 Dec 2020 $'000	28 June 2020 $'000	29 Dec 2019 $'000
Segment assets	296,218	258,261	279,648
Total assets as per the balance sheet	**296,218**	**258,261**	**279,648**
Segment liabilities	200,725	164,892	186,824
Total liabilities as per the balance sheet	**200,725**	**164,892**	**186,824**

Note 17: Reserves

(a) Share based payments

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Share based payments			
Balance at beginning of period	4,380	2,515	2,515
Performance rights – expense (Note 17(b))	71	1,865	1,238
Balance at end of period	**4,451**	**4,380**	**3,753**

(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).

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 $2.18. 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
2020 – Series 1 (TSR CAGR)	25 October 2019	$1.67	nil	(1)
2020 – Series 1 (EPS CAGR)	25 October 2019	$3.79	nil	(1)
2021 – Series 1 (TSR CAGR)	24 December 2020	$2.18	nil	(1)
2021 – Series 1 (EPS CAGR)	24 December 2020	$4.67	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.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 17: Reserves (cont'd)

	2020 – Series 1 TSR	2021 – Series 1 TSR
Grant date share price	$3.79	$4.67
Exercise price	nil	nil
Expected volatility	55%	52%
Expected life (years)	2.6	2.8
Dividend yield	2.21%	3.22%
Risk-free interest rate	1.35%	0.15%

Movements in performance rights during the period
The consolidated entity recorded a share-based payments expense for performance rights and cash incentive payment of $2.845 million (29 December 2019: $1.238 million) disclosed in the condensed 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:

	26 weeks ended 27 December 2020			52 weeks ended 28 June 2020		
	TSR	EPS	Retention	TSR	EPS	Retention
	Number of rights	Number of rights	Number of rights	Number of rights	Number of rights	Number of rights
Balance at beginning of the period	**3,932,880**	**2,407,500**	**564,000**	**3,942,223**	**4,219,334**	**614,000**
Granted during the period	1,330,000	1,330,000	-	1,155,500	1,155,500	-
Forfeited during the period	-	-	-	(226,740)	(257,000)	(50,000)
Exercised during the period	(1,525,380)	-	-	(938,103)	-	-
Lapsed during the period	-	-	-	-	(2,710,334)	-
Balance at end of period	**3,737,500**	**3,737,500**	**564,000**	**3,932,880**	**2,407,500**	**564,000**
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 165,221 shares (29 December 2019: 185,134 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 $0.795 million (29 December 2019: $0.652 million) was fully expensed at the time of granting, as there are no performance or service conditions.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 27 December 2020

Note 17: Reserves (cont'd)

(d) Profit reserve

	27 Dec 2020 $'000	28 Jun 2020 $'000	29 Dec 2019 $'000
Profit reserve			
Balance at beginning of period	-	-	-
Tax benefit arising on issue of shares to employees [1]	1,936	-	-
Transfer to retained earnings	(1,936)		
Balance at end of period	**-**	**-**	**-**

[1] In 1H FY21, 1,525,380 performance rights vested under the Company's Long Term Incentive Plan (market value of $7.339 million). This vesting results in an income tax benefit of $0.266 million and an increase to the profit reserve of $1.936 million.

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 (29 December 2019: nil).

Note 19: Subsequent events

Dividends on the Company's ordinary shares
An interim dividend of 5.8 cents per fully paid ordinary shares has been determined for the half-year ended 27 December 2020 - refer Note 15.

There have been no other events subsequent to the date of this report which would have a material effect on the interim financial report of the consolidated entity as at 27 December 2020.

Directors' Declaration

The Directors declare that:

(a) in their opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in their opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Ian Cornell

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Ian Cornell
Chairman

Melbourne: 12 February 2021

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Independent Auditor's Review Report to the Members of Baby Bunting Group Limited

Report on the Half-Year Financial Report

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 condensed statement of financial position as at 27 December 2020, the condensed statement of profit and loss and other comprehensive income, condensed statement of changes in equity and condensed 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, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 27 December 2020 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*.

Directors' Responsibility 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 is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to 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 consolidated financial position as at 27 December 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Tony Morse
Partner

Melbourne
12 February 2021