13 August 2021

FY21 full year results release

SUPPORTING PARENTS WITH THEIR ESSENTIAL BABY NEEDS DELIVERS ANOTHER YEAR OF STRONG GROWTH

- **Total sales of $468.4 million, up 15.6% on the prior corresponding 52-week period (pcp)**
- **Comparable store sales[1] growth of 11.3% (FY20 4.9%)**
- **Online growth of 54.2%, now 19.4% of total sales**
- **Gross margin up 83 basis points to 37.1%**
- **Achieved Pro forma[2] CODB leverage of 14 basis points to 27.8%**
- **Pro forma[2] EBITDA accelerates to be $43.5 million, up 29.2% pcp**
- **Pro forma[2] NPAT was $26.0 million, up 34.8%. Pro forma EPS growth of 33.2%**
- **Statutory NPAT of $17.5 million, up 76%**
- **No JobKeeper or rent relief received**
- **Fully franked final dividend of 8.3 cents per share (full year 14.1 cents, up 34.1%)**

Baby Bunting's CEO & Managing Director, Matt Spencer said: "We have had a tremendous year delivering great growth, both in earnings per share and returns for shareholders. This could not have been achieved without the outstanding efforts of the entire Baby Bunting team."

"Our team has remained focused on being there for new and expectant parents in uncertain times and supporting them with great service and products to meet their essential needs."

"Baby Bunting is Australia's leading maternity and baby goods retailer, and we operate in a less discretionary category with around 300,000 births a year in Australia."

"Our brand has gone from strength to strength and is now the most recognisable brand in this category and this is converting into stronger brand preference and engagement. As we expand our network of stores and our range and services, we expect our growth to continue."

Baby Bunting's market research shows unaided brand awareness of 88% among consumers shopping for essential baby needs, converting into very strong brand preference of 71%[3]. With around 1.1 million loyalty members (and approximately 600,000 active members) and around 30 million website sessions during the year, Baby Bunting has a strong market position which provides the foundations for our ongoing growth.

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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.

3 The Klein Partnership Brand health survey (2021). Baby Bunting has tracked brand perceptions using external market research firms for a number of years.

Business performance

Baby Bunting Group Limited (Baby Bunting or the Company) today reported statutory net profit after tax of $17.5 million up 76%. On a pro forma basis NPAT was $26.0 million, up 34.8% on the prior corresponding period and pro forma EBITDA was $43.5 million, up 29.2%.

Like last year, these results were achieved without any JobKeeper payments or rent relief.

Sales growth

Total sales were $468.4 million, representing growth of 15.6% (pcp). Comparable store sales growth (which includes sales from the online store of $90.8 million) was 11.3% for the year. On a two year basis, sales have grown impressively by 29.2% or $106 million.

Gross profit and gross margin

Gross profit for the year was $173.7 million, an improvement of 18.3% on the prior corresponding period. Gross profit margin has improved by 83 basis points to be 37.1%. This follows on from the 120 basis points improvement in gross margin achieved in the prior year.

Private Label and Exclusive Products sales grew 31.1% to be 41.4% of total sales (FY21: 36.5%). There has been considerable growth in the proportion of private label and exclusive sales and 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 27.8% of sales for the year, an improvement of 14 basis points. Leverage was achieved in stores, as store expenses were 19.2% of sales, an improvement of 94 basis points over the year.

Digital and online

Online sales (including click and collect) grew 54.2% to $90.8 million and now make up 19.4% of total sales. Click and collect grew 110% and made up around 57% of all online sales in catchments where Baby Bunting has a store. This means about 90% of all sales involve a customer store visit in these catchments, reinforcing the criticality of our store assets.

Baby Bunting has continued its digital investment in the transition to a headless architecture as the technology foundation for online and digital commerce experiences. The new architecture is already being used for the Baby Bunting website in New Zealand and will be the technology employed to support the Australian online channel.

Expanding store and distribution network

New stores in Westfield Knox (Vic), Coffs Harbour (NSW), Westfield Belconnen (ACT) and Castle Towers (NSW) were opened during the year. This brings the total store numbers to 60 stores and the Company's network plan is for more than 100 stores around Australia in various formats.

Online fulfilment hubs have been established at key stores in NSW, Western Australia, South Australia, Queensland and Tasmania, and we have a number of online fulfilment stores around Australia. This network supports the efficient fulfilment of online orders in those catchments (with 41% of online orders fulfilled from stores). The long-term objective remains to fulfil 90% of online orders same day in metro areas.

A new National Distribution Centre (NDC) and Store Support Centre was successfully commissioned on-time in 2H FY21 at Dandenong South. At over 22,000 square metres, the NDC more than doubles the distribution capability and has reduced the reliance on third party logistics and increased the range of products moving through the NDC. Supply chain capability is a key driver to continued gross margin expansion.

Business initiatives and transformation

COVID-19 has impacted the timing of the delivery of some projects, including delaying the roll-out of our first store in New Zealand to 2H FY22. It has also had some impact on our transformation program.

Baby Bunting's transformation program, which provides a foundation for future growth, has continued through the year. Many projects were completed during the year, including brand modernisation, the first phase of Baby Bunting's new loyalty program "Baby Bunting family", the implementation of the demand planning and replenishment tool and the merchandise financial planning software. The transformation program is now expected to conclude in FY23.

COVID-19 and supporting the movement to COVID-normal

Keeping our Team and our customers safe is our number one priority. Operating in a COVID-safe way is now routine. We have a policy of providing paid leave to team members who need to isolate due to COVID-19 (permanent and casual Team Members).

Matt Spencer said "We want every Team Member who can be vaccinated, to be vaccinated. To support this, we're providing paid leave for Team Members to take time off when they need it to attend vaccination appointments. We're also running a competition for our Team to encourage them to get vaccinated, with winners sharing in a prize pool of $10,000. We all need to play our part to help Australia move to a COVID-normal setting."

7th annual Employee Share Gift Offer

As part of the way Baby Bunting recognises and thanks its Team, Baby Bunting will later this year again make available $1,000 of Baby Bunting shares to eligible team members under the Company's General Employee Share Plan. This will be the seventh consecutive annual offer under this plan.

With more than half of our Team as shareholders of Baby Bunting, we believe that share ownership – from the boardroom to the shop floor – aligns and bonds our Team to the common goals of growth and growing shareholder value.

Dividend

The Board has announced a final fully franked dividend of 8.3 cents per share (FY20: 6.4 cents per share). With the FY21 interim dividend of 5.8 cents per share, the total dividend attributed to FY21 is 14.1 cents per share up 34.1% on last year (FY20: 10.5 cents per share).

Board changes

Earlier this year, Baby Bunting's Chairman of five years, Ian Cornell announced that he would not be seeking re-election at the 2021 AGM. Ian has led the Board during a period of great success for the Company. The Board has selected Melanie Wilson, a director since 2016, to succeed Ian as Chairman.

The Board is pleased to announce the appointment of Francine Ereira and Stephen Roche as non-executive directors. Their strong executive, retail and digital experience will complement the skills and experience on the Board. Further details are set out at the end of this announcement.

Impact of lockdowns

The Company's strong total sales and comparable store sales growth was also achieved during a year interrupted by lockdowns around Australia. Our experience has been that any short-term sales moderation because of lockdowns is recovered relatively quickly once lockdown conditions have eased.

Baby Bunting stores have remained open during the lockdowns to provide essential goods and services for the health and safety of children and parents. While some purchasing needs can be met through online and click and collect, in-store purchasing is essential for several products and services.

It is a characteristic of the maternity and baby goods category that the timing of purchasing decisions is relatively flexible and will move when lockdowns occur. However, they cannot be delayed indefinitely. i.e., when the baby is imminent or has just been born.

There are around 6,000 births on average per week in Australia. As noted above, lockdowns – which have been of varying durations – result in changes in sales patterns in the lockdown areas. Sales typically recover quickly after lockdowns ease.

Outlook

All stores have remained open during the recent lockdowns in Victoria, South Australia, parts of Queensland and in Greater Sydney.

Comparable store sales as at 12 August 2021 were -6.4% year-to-date.

We anticipate opening 3 new stores in 1H FY22, with a strong pipeline of leases committed for 2H FY22, plus two in New Zealand.

The COVID-19 pandemic continues to create significant disruption, with the risk that trading conditions will fluctuate greatly throughout the year. Accordingly, no guidance about FY22 earnings can be given at this time.

Matt Spencer concluded: "While the new financial year has started with some disruptions from ongoing lockdowns, our experience has been that any short-term sales impact is recovered quickly once lockdowns have eased. While FY22 may have more surprises, our operating strength in our category and our transformation plans should see us well placed in the period ahead."

Comments on reporting

Pro forma NPAT excludes employee equity incentive expenses, the significant costs associated with business transformation projects and other income associated with a recovery from the vendor of certain digital assets that were impaired in the prior year. This information is presented on a pro forma basis to better demonstrate the underlying trading performance of the business. In addition, pro forma EBITDA also excludes the impact of AASB 16 lease accounting and is presented 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 13 August 2021 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, 13 August 2021**. You may access the call by registering via:

http://apac.directeventreg.com/registration/event/2738439

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

The release of this announcement was authorised by the Board.

For further information, please contact:

Darin Hoekman
Chief Financial Officer
Ph: 03 8795 8100

Additional information:

New non-executive directors

The appointment of Francine Ereira and Stephen Roche as non-executive directors will take effect on 1 September 2021. They will each seek election at the 2021 AGM.

Francine Ereira

Most recently Country Head Australia and New Zealand at Klarna, a leading global payments and shopping service, Francine brings over 20 years' experience in areas including e-commerce, payments/fintech, sales, supply chain and marketing. Prior to her role at Klarna, she was General Manager Sales & Solution Delivery at Zip Co Limited, a leading Australian payments solutions provider. Her roles have also included senior executive roles in e-commerce logistics and fulfilment, and sales and marketing roles at national and international consumer brand companies.

She holds a Bachelor of Business from Monash University.

Stephen Roche

Stephen was previously a non-executive director of the Company from May 2017 to June 2018 and the Board is pleased that Stephen is now able to return to that position.

He has 15 years' experience as a director of public companies, private family offices and not for profit enterprises. Currently, Managing Director of Bridgestone Australia & New Zealand, he has also been Managing Director and CEO of Australian Pharmaceutical Industries Limited from August 2006 to February 2017. He brings extensive experience in strategy, business development and supply chains across retail, healthcare and consumer markets.

Stephen is currently a non-executive director of Myer Family Investments Pty Ltd and a director of the Adelaide Football Club.

He holds a Bachelor of Business from the University of South Australia and is a fellow of the Australian Institute of Company Directors.