BabyBunting

17 February 2023

FY23 half year results release

Gross margin improvements continue and building into 2H

- Total sales of $254.9 million, up 6.6% on the prior corresponding 26-week period (pcp)
- Comparable store sales growth of 0.4% (1H FY22: 6.8%)
- In-store sales made up 80% of sales, up 12.2% (1H FY22: 4.5%)
- Online sales were 19.7% of sales (1H FY22: 23.8%)
- Gross margin was 37.2% (1H FY22: 39.3%)
- Pro forma[1] CODB was 32.4% (1H FY22: 30.2%)
- Pro forma[1] NPAT was $5.1 million (1H FY22: $12.5 million)
- Statutory NPAT of $2.7 million (1H FY22: $8.1 million)
- Fully franked interim dividend of 2.7 cents per share (1H FY22: 6.6 cents)
- CEO & Managing Director succession process announced (*see separate ASX announcement released today*)

Baby Bunting Group Limited (Baby Bunting or the Company) today reported its financial results for the half year ended 26 December 2022.

The financial results are in line with the preliminary financial results published on 16 January 2023.

Statutory net profit after tax was $2.7 million, down 67% on the prior corresponding period. On a pro forma basis, NPAT was $5.1 million, down 59% on the prior corresponding period.

Total sales of $254.9 million for the half were 6.6% higher than 1H FY22. Comparable store sales growth for the half was 0.4%, cycling 6.8% in the prior corresponding period. In 1H FY23, our in-store sales, which made up 80% of sales, performed strongly during the period. These sales grew by 12.2%, largely driven by the core category of nursery essentials. Online delivery sales grew 6.5% for the period.

As consumers have reverted to pre-pandemic shopping behaviours, touchless Click & Collect has fallen in the first half by 30.2% (vs pcp). However, it is still significantly up by around 225% over a 3-year period.

The business substantially held onto the significant market share gains it made over the last three years of COVID, noting that all Baby Bunting stores remained open during that time.

Gross profit margin finished the half at 37.2% which was down 212 basis points on the prior corresponding period. This was a consequence of several factors including, supply chain cost increases, rapidly increasing domestic transport costs, better than expected engagement with the recently launched loyalty program and the impacts of the contraction of the play gear category.

1. Pro forma financial results exclude employee equity incentive expenses and significant costs associated with business transformation projects. This information is presented on a pro forma basis to better demonstrate the underlying trading performance of the business.

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As the supply chain impacts seen in the first half normalise, and other management actions undertaken in Q2 take effect, gross margin recovery is expected to continue through the second half. Full year gross margin is expected to be between 38.0% and 39.0% (FY22: 38.6%). Gross profit percentage for January is in line with the recovery plans and up on the prior year.

The cost of doing business (on a pro forma basis) was 32.4%, an increase of 222 basis points. This reflected significant wage inflation, investments in new markets where revenue benefits flow in the future (including 9 new and annualising stores, the launch of the New Zealand business and investment in the new Baby Bunting Marketplace) and further investments to platform the business appropriately for future growth.

Baby Bunting's CEO & Managing Director, Matt Spencer said: "Baby Bunting grew total sales by 6.6% in the period, continuing our strategy of growing market share. Over the last 3 years, our sales have grown 36.7% noting that all Baby Bunting stores remained open during the COVID-period. As life has normalised, the market share gains made through COVID have predominantly been held onto."

"Post-COVID, our product segment performance is normalising. Nursery essentials – being a core category – continue to grow strongly and were up 12.7% in the half (over three years, this category is up 39.4%). Consumer staples, which are more widely available across general retail, saw a decline of 4.7%. Play time items (including Play gear) declined 3.6% in the half, reflecting price deflation and reduced demand after the pandemic."

Strategy and future initiatives

Baby Bunting's strategy remains unchanged, with a focus on growing market share from its core business, investing in digital, growing in new markets and profit margin improvement.

The store roll-out continues with 5 new stores opened in the half, plus Loganholme, in Brisbane, which opened on 11 February and is the 69th store in the Australian network. The next store is expected to open in Orange in April, with the second New Zealand store, in Christchurch, to follow in late FY23 or early FY24.

Progress continues to be made with Baby Bunting's transformation program, with a new Time & Attendance system to be completed in FY23, benefits are being realised from improvement in order management and the ERP/POS replacement project is expected to move to vendor selection towards the end of FY23.

Baby Bunting Marketplace (to be available on babybunting.com.au), which presents a significant revenue opportunity, is on track to launch in Q4 FY23. We are working with a number of suppliers to develop the offer and we have plans to launch with 1,000 additional products as part of this new curated marketplace.

Dividend

The Board has announced an interim fully franked dividend of 2.7 cents per share, payable on 17 March 2023 (FY22 interim dividend: 6.6 cents per share).

Trading update and FY23 outlook

As at 16 February 2023, year-to-date sales performance was:

- total sales growth of 3.3%; and
- comparable store sales of negative 2.1%.

Gross profit percentage for January is in line with the Company's recovery plans and up on the prior year.

Baby Bunting confirms the earnings outlook it provided on 16 January 2023. For FY23, Baby Bunting expects:

- pro forma net profit after tax to be in the range of $21.5 million to $24 million; and

- full year gross profit margin to be between 38% to 39%.

This outlook reflects comparable store sales growth that ranges between negative low single digits and positive low single digits for the full year. The breadth of the range reflects a degree of uncertainty associated with consumer demand and behaviour. The outlook assumes no significant deterioration in economic conditions that affect sales performance.

Investor call

Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) will host a call at **9.15am (AEDT)** on **Friday, 17 February 2023**. You may access the call by registering via:

https://registrations.events/signup/ID81250

The release of this announcement was authorised by the Board.

Further details are provided in the FY23 Half Year Results Presentation published at the same time as this announcement.

For further information, please contact:

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