BabyBunting

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ASX Market Announcements Office
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Baby Bunting Group Limited (ASX: BBN)

2023 AGM address and trading update

Attached is a copy of the Chair's and CEO's address to shareholders to be delivered today at the Company's 2023 AGM.

The release of this announcement was authorised by the Board.

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Chair's and CEO's AGM address

Melanie Wilson, Chair and Non-Executive Director

Before we move to consider the items of business, I would like to welcome Baby Bunting's new CEO, Mark Teperson, to his first annual general meeting. Shareholders will hear from Mark a bit later in the meeting.

I would also like to thank Matt Spencer for his efforts in leading Baby Bunting during his time as CEO. As I've stated previously, Matt made a significant contribution to the Company and has laid foundations on which Mark and our executive leadership team can use to take Baby Bunting into the next stage of its growth.

Now, some comments the 2023 financial year.

Conditions became more difficult for Australian retailers as the year progressed.

Trading conditions were volatile, which saw impacts to gross profit margin in the first quarter, as well as difficult retail trading conditions in the second half with consumer sentiment turning negative as cost of living pressures became more prominent in the final quarter of the year.

This impacted sales and profit and Baby Bunting finished at a level below our expectations for the year.

We have undertaken actions to optimise our cost structure which have included restructuring our Store Support Centre and implementing measures to counter cost inflation.

The Baby Bunting brand continues to be the strongest in the Australian nursery sector and our plans for the year ahead will see us focused on providing great value and range to our customers while also looking to the future growth of the organisation.

Growth strategy – grow market share

For a number of years the Company's strategy has been to grow market share. The strategy has four key elements:

- First, investing in digital to deliver the best possible customer experience across all channels and enabling new business models.
- Secondly, investing to grow market share from our core business.
- Thirdly, growth from new markets.
- And finally, to continue to pursue profit margin improvement.

This has been a strategy that has seen us grow our store network, launch into New Zealand and expand our online presence through Baby Bunting marketplace. These strategic pillars will continue to remain in place as we work to further engage with our valued customers and offer value to them in a time of challenging economic conditions.

FY23 pro forma financial summary

We released our financial results for FY23 back in August.

Our pro forma net profit after tax for the year declined by 51.0% to finish at $14.5 million. This was a disappointing result after the years of growth that have been delivered leading into FY23. It further emphasises the importance of maintaining a steadfast commitment to our structure and cost management as we navigate these uncertain trading environments.

Sales grew 1.7% and were $515.8 million for the year.

At the gross profit level, gross profit margin finished at 37.4%, which was down 118 basis points on the prior year. As we have explained previously, the Company experienced some significant cost of sales pressures in the first half. Margin then recovered in the second half as initiatives were undertaken to support margin.

Cost increases experienced during the year included international container shipping rates (which peaked through calendar 2022 and have now moderated back to pre-COVID levels), diesel fuel levy increases, and higher than anticipated reward redemptions within our loyalty program. To address this, we made adjustments to pricing and our loyalty program.

Costs of doing business as a percentage of sales were 272 basis points higher year-on-year at 31.4% of sales, and pro forma cost of doing business expenses were $161.7 million, up 11.3% on the prior year. Increased operating expenses were driven by four new stores opened in FY22 that only traded part of that year, and the seven new stores in FY23. In addition, we invested in improved business processes and systems to support the expanding store network. We improved customer experience in stores and online and incurred one-off set up costs associated with establishing operations in New Zealand and the marketplace.

These factors of sales, margin and costs saw Group EBITDA finish at $31.2 million, down 38.2% on the prior year.

The Company paid out a total dividend of 7.5 cents per share for the year and achieved a return on funds employed of 20%.

It's worth noting that at the end of the year, Baby Bunting finished with net debt of $6.2 million and with significant capacity in the Company's $70 million banking facility.

FY23 operating highlights

Turning to some of the Company's operating highlights.

We opened 7 new stores and relocated one store in the period. In the weekend just gone, we opened another store at Cranborne in Victoria, which brings our store network up to 72 stores.

A significant development towards the end of the year was the launch of Baby Bunting's marketplace. The marketplace enables third-party sellers to offer a curated range of products on babybunting.com.au. I'll discuss that in more detail shortly.

We opened our first store in New Zealand in August 2022 in Albany in Auckland. We have made some terrific progress in this catchment, which is informing our approach to the New Zealand market. In FY24, we will have three further stores open in New Zealand which will help to build brand awareness and drive efficiencies in our overheads.

Other highlights included managing our inventory well, maintaining Private Label and Exclusive Product sales at around 45% of sales and maintaining our Net Promotor Score at a very high 72.

In terms of the Company's Transformation Program, we completed our People systems program – with the implementation of our new Time & Attendance system. We are still progressing work on replacing our ERP/POS system albeit with investment to occur in the future periods.

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Sustainability

Baby Bunting's Sustainability Report was released in August and it talks to the Company's ESG work in the areas of Our People, Our Communities and Our Planet.

Our support for our charity partners increased through the year and we helped raise over $1 million for our charity partners as well as in-kind donations to needy families.

The use of renewable-sourced energy increased to 21% of our Australian store network, up from 11%.

We have also phased out plastic bags from our stores and made some significant changes to reduce plastic usage in our supply chain and online fulfilment processes.

Marketplace

As the number one specialty baby retailer in Australia, we have built significant brand awareness and trust with 750,000 active loyalty customers and 30 million website visitations per annum.

However, in the context of raising a child, we are only servicing a fraction of needs and believe there is significant head room to grow customer lifetime value and retention through range extension. Our customers have a relatively linear journey (unlike other categories) and most customers experience similar needs at similar times, which makes it easy to inform our range strategy to meet these additional needs.

Marketplace presents as the most capital efficient and agile response to this opportunity via a seamless integration of third party products and sellers into our existing online experience. It does not disrupt existing supply chains or add inventory risk, and allows us to curate the range without cannibalising our existing range. So, in effect, marketplace will work hand in hand with our 1P range strategy and where we do see great results it will help shape our future instore range and offer.

By offering more brands, more products and more choice to our customers and meeting more moments of need everyday for their growing families it will further cement our market leading position and we are confident it will make a positive contribution to customer lifetime value growth in coming years.

Our marketplace has been operational since June in which time we've added over 9,000 SKUs with a plan to finish the year with 20,000 SKUs. We believe we have a compelling offer for our customers and also for our third-party sellers – as we can offer a unique proposition for access to committed consumers in the category.

Trading update

I would like to give you an insight into trading since we last briefed the market on 11 August this year.

Pressure on discretionary spending and affordability remains. Year-to-date total sales performance has seen total sales down 3.3% against the corresponding period last year, where total sales growth was 12%.

Comparable store sales are down 8.5%, cycling positive 7.6%.

Pleasingly, for the first quarter, gross profit percentage was 37.9%, up 70 basis points compared to the prior corresponding period.

Administration costs reduced $1.7 million against the prior corresponding period, reflecting management's focus on cost management initiatives.

We anticipate opening 5 new stores in the year, including the recently opened Cranbourne store, and we will add a further Queensland store at Maroochydore. Excitingly, in New Zealand, we will be adding 3 new stores – with stores in the Auckland area at Sylvia Park and Manukau, plus a store in the South Island at Christchurch.

We will not be providing any further guidance about FY24 earnings at this time.

Later in the meeting, shareholders will have an opportunity to vote on the adoption of the Company's Remuneration Report and the approval of grants of equity incentives to Mark Teperson.

The Board believes it has structured a remuneration package that is sufficient to incentivise and reward Mark in driving the next stage of growth for our Company.

Shareholders will also have an opportunity to vote on the re-election of Gary Levin and Donna Player.

To close, I want to thank all our team members in our stores, our Australian and New Zealand Distribution Centres and our Store Support Centre who all contribute to Baby Bunting's purpose of supporting new and expectant parents.

I will now invite Mark Teperson to address shareholders.

Mark Teperson, Chief Executive Officer

Good morning and thank you Melanie.

As Melanie has mentioned, this is my first Baby Bunting Annual General Meeting. I am delighted to have joined the Baby Bunting team.

This is only my seventh day at Baby Bunting, and I have been spending the last week getting to know some of our team and the key parts of our business. Over the next few weeks I will be meeting more of our store teams around Australia, our suppliers and our shareholders.

Last weekend, I had the pleasure of attending the grand opening of our 72nd store at Cranbourne HomeCo in Victoria. It is a great store in a great location and it was amazing to meet our team at that store and see the excitement of our customers. I am looking forward to meeting more of the team in New Zealand, as we open our next 3 stores there in remainder of this calendar year.

I am a retailer at heart, and I am passionate about providing our customers and our team members a wonderful experience when they're shopping with us or working as part of our team. I have always strived to be part of organisations that have a meaningful purpose at the core of what they do and that enable their customers in a positive way. And Baby Bunting is an organisation with a strong purpose and the opportunity to support new and expectant parents means we can make a real impact in people's lives.

I started in retail more than 20 years ago and it has been a career that has focused exclusively on consumer facing businesses. This includes my time at Accent Group, where I was the Chief Digital Officer, and then at Afterpay where I was Chief Strategy Officer and Chief Product Officer. During my career, I have been involved in every facet of retail businesses and I have a strong track record in establishing and scaling disruptive business models.

I have had a long association with Baby Bunting going back 10 years, including as a customer with my two children now 10 and 7 years old. Reflecting on my experience to date, the opportunity to join Baby Bunting was an exciting challenge and a logical next step.

Baby Bunting has some great strengths. It has a wonderful team and a strong service culture. Over the last few years, the business has been investing in systems and its foundations. It is the leading baby and nursery retailer in Australia where its brand awareness is exceptionally high in a category that is generally less discretionary.

There are also challenges. There is a shifting consumer landscape where millennials account for around 80% of new parents. At the same time, around half of millennials own a home with a mortgage and a further 40% are renting. With fixed term mortgages written in the last few years now rolling off into variable loan rates, this group is experiencing higher housing costs. The purchasing behaviour of this group continues to evolve, as seen through shifts in spending behaviours, preferences and shopping channels.

The opportunity for Baby Bunting continues to be significant. The discretionary retail spend of millennials and Gen Z is expected to grow from 32% in 2020 to 48% by 2030. The biggest discretionary spending demographic is also our core customer and Australia's birth rate remains relatively steady at around 300,000 births each year. As consumer preferences continue to evolve, we have the opportunity to lead and reimagine the baby and nursery category for our current and future customer. I believe the opportunity for Baby Bunting is an exciting one.

I would like to thank Darin Hoekman for his efforts over the last few months while acting as interim CEO. I also echo Melanie's comments about Matt Spencer and acknowledge his contributions over his time at Baby Bunting.

Finally, I want to acknowledge all Baby Bunting team members around Australia and New Zealand. I know from my time with the company and the store visits I did before taking on this role, that our team members are passionate and strive to provide an important service and experience to our customers. I'm excited about the opportunities ahead and making a lasting impression on this industry as we work to deliver strong operational and financial performance into the future.

Thank you. I will now hand you back to the Chair.
