TEMPLE & WEBSTER GROUP LTD
ABN 69 608 595 660

ASX Announcement

29 November 2023

AGM Address

Chairman's address

Good morning everyone.

Welcome to our financial year 2023 Annual General Meeting, being held at our St. Peters headquarters.

Before we begin, Temple & Webster Group would like to acknowledge the Traditional Owners and Custodians of Country throughout Australia. We recognise their enduring connection to the lands, the waterways and the skies. We acknowledge the Gadigal and Wangal people, on whose lands our corporate head office is located, as well as all other First Nation Countries we operate across. We pay our respects to Elders past and present, and to all Aboriginal and Torres Strait Islander peoples.

As we detailed in August, I am pleased to report Temple & Webster delivered a strong FY23 result, with revenue of $396 million and a return to growth in the fourth quarter.

These results meant we retained around 90% of the FY22 revenue which was boosted significantly by strong e-commerce demand during the pandemic. It is great to see the Group back in growth now that we have finished cycling COVID-19-impacted periods, especially given the current macroeconomic climate.

The 2023 financial year saw tough conditions for Australian shoppers, with a number of interest rate rises and inflationary pressures. In this environment, we recognised early that customers would be looking for choice and value and we successfully adjusted our range, promotional activity, pricing and on-site merchandising to reflect these changing customer needs.

Against this backdrop, the flexibility of our business model helped deliver an EBITDA result of $14.8 million for the year, up 80% in the second half compared to the same period in FY22.

We finished the year with a cash balance of $105 million, and we remain debt-free. The strength of our balance sheet enabled us to initiate an on-market buyback of up to $30 million of Temple & Webster shares. By the end of the financial year, the business had bought back 2.7 million shares at a cost of $12.3 million. The Board considers the buyback program to be an effective capital management strategy that also allows us to retain flexibility to pursue future organic and inorganic opportunities as part of our growth strategy. We anticipate the buyback will continue post our AGM.

We continued to invest in our future growth horizons of Trade and Commercial and Home Improvement. We also continued to advance our market-leading digital capabilities, including the use of artificial intelligence. We see significant potential for AI to increase conversion and customer benefits, and to help us achieve productivity gains to lower our fixed costs as a percentage of revenue as we scale.

The current economic cycle will no doubt present challenges for some retailers. However, equally, opportunities may also present themselves to those who can combine capability and financial strength with strategic and operational agility. Our focus during this period will be to execute on our key strategic priorities to increase our market share.

Mark will shortly talk to our strategic plan in more detail. This is an important step towards our goal of becoming the largest retailer of furniture and homewares in Australia. We believe that becoming the top-of-mind brand in the category, having the best and most exclusive range of products, developing market leading capabilities around technology, data, and AI, lowering our fixed cost percentage, and building scale through adjacent growth plays will establish Temple & Webster as the destination brand for buying products for the home for generations of Australians.

We are the leading pure play online retailer in a market that is poised to grow substantially over time. The Australian furniture and homewares market is worth around $19 billion but only about 18% of that market has moved online currently, compared to the 27% to 28% we see in markets such as the US and UK.

As we have seen previously, we expect Australia to catch up to these markets over the coming years, driven by demographic trends independent of macroeconomic factors. Millennials are overtaking Baby Boomers as the largest population segment and these are the first digital natives to enter core furniture and homewares-buying years. Internally, we are already seeing the millennial cohort as one of our fastest growing segments.

This year saw a few changes to the composition of our Board. In November 2022, we farewelled Sue Thomas, Non-Executive Director and Chair of the Audit and Risk Management Committee, who retired after six years of service. Sue made a valued contribution to the Board and the Group and on behalf of the Board and management team, I express my sincere gratitude to Sue.

We were delighted to welcome Melinda Snowden in June as a Non-Executive Director. She will also serve as Chair of the Audit and Risk Management Committee. Melinda's extensive experience in legal and professional corporate advisory roles makes her an ideal addition to the Board and ensures we have the right mix of skills and experience to execute our growth strategy.

On behalf of the Board, I would like to thank Mark Coulter, our CFO Mark Tayler and our broader management team for their hard work and dedication in what has proven to be another challenging yet successful year for Temple & Webster.

Separately, this year, as part of ensuring that we are set up for success, we reviewed the structure of our executive team and added a Chief Marketing Officer, Joana Barros, an experienced cross-channel marketer who has worked in e-commerce for many years, including roles in the competitive market of online travel.

Additionally, Tim Charlton, who was running our supply chain team, was promoted to Chief Operating Officer and Kate Perkins, who leads our category management and sourcing teams, has been promoted to Chief Merchandise Officer.

In closing, I'd like to extend my thanks to my fellow Directors for their contribution, commitment and stewardship.

And finally, I would also like to thank you, our shareholders, for your continued support.

I will now hand over to Mark for his address.

CEO's address

Thank you, Stephen and good morning everyone.

As Stephen outlined, Temple & Webster delivered a strong FY23 result, with revenue of $396 million and a return to growth in the fourth quarter, driven by growth in both repeat and first-time customers. Our EBITDA result of $14.8 million was within our stated margin range of 3-5%.

This performance reflects the resilience and flexibility of our business model in a difficult trading environment. As cost-of-living pressures impact household budgets, shoppers increasingly search for quality at affordable prices, and it is clear our agile range is resonating with customers.

I'd like to take a moment to call out a few highlights for the year:

- We managed to retain around 90% of our peak COVID-19 customer numbers and over half of our orders were from repeat customers. The 6% increase in revenue per customer was driven by an increase in average order values which benefited from mix shifts towards less discretionary items such as furniture.
- While the conversion rate slightly dipped since the high intensity years of COVID, we still have the leading conversion rate among large retailers dedicated to the home in Australia. One of the key drivers of our strong conversion rate has been the deployment of our iOS and Android apps and by the end of FY23 we had 536,000 lifetime downloads of these apps.
- We were also able to pass on most of our inflationary pressures in our cost base, particularly around shipping. Marketing return on investment held despite inflationary pressures which provides headroom to increase our brand spend to drive market share.
- Our customer satisfaction remains one of the highest in the category. One of the drivers of our increasing customer satisfaction and NPS has been the launch of our scalable asset light T&W delivery service, now in multiple metro and regional markets throughout Australia.

Strategic priorities

So where to from here?

As we progress into FY24, we understand that the macroeconomic turbulence of the past 12 months isn't in the rear-view mirror yet. However, we are well positioned to manage these headwinds and believe this environment provides us with an opportunity to gain market share faster and more efficiently as less well-capitalised peers struggle with market conditions.

As Stephen touched on, our sights are firmly set on exceeding a billion dollars in revenue over the next three to five years. This growth will come from both the core business and new growth horizons of B2B and Home Improvement. We believe at this scale we will firmly entrench our competitive moats around range, brand, data, AI and technology.

To do this, we will be focusing on five key strategic priorities. Firstly, becoming the top-of-mind brand in furniture and homewares. Temple & Webster currently ranks seventh in unprompted awareness for furniture and homewares among Australian shoppers and only 22% of Australian furniture and homewares shoppers have visited our site. Research shows customers switch brands to a greater extent when times are tougher as they seek more value. Advertising becomes more efficient due to macroeconomic conditions.

As such, we believe now is the time to build brand equity and salience to gain market share. In FY23, given the strategic importance of brand and direct traffic, we focused on building out our internal and external capability including adding a chief marketing officer. In FY24, we launched our first multi-channel, multi-city above the line campaign. As the business scales so will our marketing budgets, allowing us to keep adding brand awareness points with the goal of becoming the top-of-mind brand in the category over the next three to five years.

We want to be famous for having the best range in the country, a site with an incredible range of high-quality products at great prices which cannot be found elsewhere. To do this, we want the majority of our sales to come from exclusive lines and this will involve growing the share of revenue from these products from around 40% in FY23 to around 70% over the next three to five years.

Thirdly, as an online only business we are well placed to benefit from the frankly revolutionary potential of new technologies such as AI.

Our dedicated internal AI team is looking at how we implement AI technology across all of our customer interactions and internal processes. Early initiatives include using generative AI to power all pre-sale product inquiry live chats. We've also used AI to enhance product descriptions across more than 200,000 products. This has led to an increase in conversion, products added to cart and revenue per visit. In FY24, we're targeting the use of AI for all first-time care interactions, logistics routing and exceptions handling, pricing, promotions and recommendations.

Our fourth strategic goal is to significantly decrease our fixed costs as a percentage of sales over the coming years. Given we do not have physical store costs, our fixed cost base can be leveraged across a greater scale, significantly reducing our fixed cost percentage as our revenue increases, especially as most areas in our business can be materially disrupted by AI.

In FY23, around 16% of our revenue base was from Trade and Commercial (B2B) and Home Improvement. Our three-to-five-year plan is to have more than 30% of Group revenue coming from these new growth horizons, plus potentially new opportunities. This will diversify the revenue mix of the Group and also allow us to gain further leverage of our fixed cost base.

The B2B division has been structured to provide a full service offering to business customers including a newly established design projects division responsible for design, procurement and installation of large-scale projects. We are targeting accommodation, residential and the SME office market this year, while sales specialists focused on the specific requirements of each sector have been added.

Ongoing design and sourcing of a commercial grade product offering to service these industries will result in large scale range expansion in FY24. Additionally, we are still very bullish about the Home Improvement category and have made the decision to focus on Temple & Webster as a single brand for both furniture and homewares and Home Improvement. This will enable the redeployment of The Build team and marketing budget to Temple & Webster.

Going forward, we will continue to build out our high-quality range and also keep investing in the complementary markets we've identified for future growth.

As we return to our growth strategy as a category disrupter, FY24 and FY25 will be focused on accelerating our growth and market share gains. Our strong balance sheet gives us the flexibility to take advantage of what is a once in a generation shift from offline to online, which will rebalance our earnings profile in the near-term, but then get us to our longer-term goal more quickly.

An additional 2% to 3% of revenue will be invested into marketing, spread across brand and performance channels to increase awareness and build our brand strategic moat.

We expect EBITDA margins to start incrementally building from FY26 towards our longer-term EBITDA margin of over 15%. This will be driven by increasing scale benefits with suppliers, more private label and exclusive orders, improved logistical efficiencies, and of course, the benefits from our investments into AI.

Our commitment

In FY23 we continued to progress our commitment to being a responsible and sustainable business.

We established key baseline ESG metrics, which will allow us to track and measure the progress of our sustainability goals, while providing valuable insights to inform our long-term strategy in key areas, such as procurement and capital allocation.

Importantly, we remain committed to reducing our carbon emissions by 45% by 2030. We recognise the importance of carbon offsetting to achieve this goal and are firmly committed to reducing or removing carbon emissions from our operations where possible.

The procurement of our range remains the area where we have the most potential to drive positive change throughout the value chain. Our procurement teams continue to work with suppliers to offer more products that have been responsibly and ethically sourced, with a key focus on due diligence and verification of sustainability claims.

Furthermore, we recognise the importance of supporting our people and the broader community. Diversity, equity and inclusion has always been a fundamental element of our business and values. We are committed to advancing reconciliation with First Nations peoples, taking steps to make our workplace more inclusive, and ensuring our employees are provided with the opportunities and resources to grow.

Trading update

The year has started strongly with sales from the 1st July to the 27th November up 23% year on year. Q2 has seen an acceleration of growth with revenue up 42% year on year (1st October - 27th November), which in part has been supported by the launch of our above-the-line brand campaign in Syd, Mel & Bris which commenced on the 22nd October.

The Black Friday-Cyber Monday trading period continues to grow in importance as customers bring their Christmas shopping forward. This year the 4-day period delivered $17.4m in sales, up 101% on last year, and included multiple record days.

We continue to grow our market share at a time when the overall furniture and homewares market is down, reflecting the resilience of our business model and flexibility of our merchandising strategy. Growing our market share is a key strategic focus, which supports our goal of becoming Australia's largest retailer of furniture and homewares.

Our $30m on-market buyback has bought back 3.9m shares at a total cost of $19.9m to date. Our cash balance remains above $100m which provides significant flexibility to accelerate both organic growth and potentially inorganic opportunities.

We reaffirm our EBITDA margin guidance for FY24.

Thank you to the Tempster team

I'd like to say a huge thank you to the Tempster team.

Your commitment, adaptability, and resilience is as inspiring as ever. We wouldn't be able to fulfill our vision of making the world more beautiful, one room at a time, without you.

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This announcement has been authorised by the board of directors.

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Forward Looking Statements

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About the Temple & Webster Group

Temple & Webster is Australia's largest pure play online retailer of furniture and homewares.

Temple & Webster has over 200,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model whereby products are sent directly to customers by suppliers, enabling faster delivery times and reducing the need to hold inventory, allowing for a larger product range.

The drop ship range is complemented by a private label range which is sourced directly by Temple & Webster from overseas suppliers.

Temple & Webster's Trade & Commercial division services the B2B market, offering exclusive product ranges, procurement, styling, specialised delivery and installation services by a dedicated support team. The Group also provides home improvement products via both the Temple & Webster and The Build websites, with everything customers need to renovate and redecorate their homes.

Temple & Webster Group's registered office and principal place of business is 2, 1-7 Unwins Bridge Road, St Peters, Sydney, Australia and is listed on the Australian Securities Exchange under the code TPW.