BabyBunting

15 October 2024

2024 AGM Addresses and Trading Update

Q1 Gross Profit Margin of 40.3%, FY25 guidance maintained

Trading update:

- **Q1 FY25 gross profit margin of 40.3%, up 240 bps vs pcp of 37.9% –** on track to deliver FY25 margin target
- **Revised go-to-market strategy** underpinning performance momentum:
  - As at 13 October 2024, year-to-date sales delivered +2.4% total sales growth and +0.6% comp growth
- **Range innovation** featuring strongly in best performing sub-categories
- **Net debt of $21m** at the end of Q1 was in line with plan and reflecting normal working capital cycles of the business as inventory builds for key Q2 trade period

Strategy update:

- Renegotiation of supplier terms in Australia and New Zealand driving sustained and significant gross margin benefits. Trading terms renegotiation program continues
- Exclusive brand partnerships delivering new revenue opportunities; in discussions to establish further exclusive brand arrangements
- New Maroochydore store opened in August 2024 – now 75 stores across Australia and New Zealand
- New store design is on time and on target for Q3 FY25 opening

Outlook:

FY25 earnings guidance is maintained. FY25 pro forma NPAT is expected to be in the range of **$9.5m to $12.5m**, based on expectations that:

- comparable store sales growth in the range of 0% to 3%
- gross margin of 40%
- cost of doing business increases in FY25 include new and annualising store costs, wage inflation of 3.75% and additional roles and marketing to support strategy execution
- capital expenditure of $10m - $13m, fully funded through operating cash flow

Outlook assumes no significant changes in economic and retail trading conditions, and no significant increases in sea freight expenses.

2024 AGM address and presentations

Attached is a copy of the address to shareholders to be delivered today at the Company's 2024 AGM. An AGM presentation was lodged separately with ASX at the time of this announcement.

The release of this announcement was authorised by the Board.

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2024 ANNUAL GENERAL MEETING
CHAIR'S AND CEO'S ADDRESS

CHAIR'S ADDRESS

Our Vision & Our Mission

This year has been transformative for Baby Bunting. We've reset the business around key strategic pillars with the aim of returning to growth and achieving a 10%+ EBITDA margin.

Cost of living pressures have continued to affect our customers, and to rebuild our financial performance, the Board and management team, under new CEO Mark Teperson, have focused on a long-term strategy to deliver shareholder value. This strategy was approved and announced in June this year.

Our new strategy leverages our strong business foundations. We are Australia's leading specialty baby-goods retailer. We have a market-leading omni-channel ecosystem with 75 stores across Australia and New Zealand, and over 800,000 active loyalty customers that generate over 90% of our sales.

We are well-positioned to capitalise on strong structural tailwinds in Australia, including around 300,000 births each year and a large total addressable market.

Our new strategy builds on the strength of these fundamentals, designed to drive sustainable top-line growth and improve gross margins.

Aligned with this strategy, we redefined our vision in June 2024: "The best start for the brightest future." This vision clearly communicates our market intent and helps consumers see Baby Bunting as their go-to for essential purchases.

Our mission is to "support and inspire confident parenting from newborns to toddlers." This outlines the comprehensive range of products we offer, covering everything from newborn essentials to toddler needs.

Underpinned by our vision and mission, we are looking to generate increased lifetime value.

Our market: $6.3 billion ANZ TAM and growing

We operate in a large market with a total addressable sales opportunity of $6.3 billion across Australia and New Zealand. Baby Bunting holds around 10% of the $5.2 billion opportunity in Australia and is a clear market leader in the hard goods space.

While we will continue to strengthen our position in sectors including car seats, prams and cots & furniture, there is substantial opportunity for growth in the soft goods market, which typically offers higher margins and allows for more frequent transactions with consumers.

Gaining an additional 1% market share translates to approximately $34 million in incremental revenue, offering a valuable opportunity to complement our established success in hard goods and nursery essentials.

Underpinned by our new strategy we are well positioned to capture more of our large addressable market.

Sustainability

The Board remains focused on the long-term sustainability of the Group.

Baby Bunting recently launched a 12-month car seat recycling trial in Melbourne, aiming to divert up to 12 tonnes of car seats from landfill. We have been a participant in efforts to find a sustainable solution for end-of-life car seats for many years, and we are excited about this trial which we hope will be a step to further efforts across the industry.

Baby Bunting continues to support our communities, raising over $650,000 for key charity partners PANDA and Life's Little Treasures Foundation, alongside others this year.

We have achieved our gender diversity goals at the Board and senior store leadership levels, with ongoing work at the executive level.

As we continue to focus on these critical sustainability initiatives, we have also remained committed to delivering solid financial performance.

FY2024 and the year ahead

For FY24, we reported a pro forma Net Profit After Tax of $3.7 million. More recently our strategic initiatives have begun to deliver positive trading momentum, which Mark will talk to in more detail.

We will continue our disciplined approach to capital management. In FY24 we extended our existing NAB debt facility to September 2027, maintaining the same pricing. For FY25, we are making several capital investments, including new store redesigns and formats, investing in store upgrades, as well as our digital infrastructure, to strengthen our omni-channel offering. These investments will be funded through operating cashflows.

Baby Bunting paid out the FY23 final dividend of 7.5 cents per share in September 2023, followed by the 1H FY24 interim dividend of 4.8 cents per share in March. However, no FY24 final dividend was paid as we prioritise the Company's ongoing strategic investments and future growth initiatives. The Board intends to assess capital needs annually.

Our investments in both infrastructure and talent are positioning Baby Bunting for long-term success, especially under new leadership.

The Board selected Mark as our new CEO and he commenced in October last year. Under Mark's leadership we have seen the continued bolstering of our team. We have since appointed Ciara McGoohan in the dual role of Chief Customer Officer and Chief Data & Analytics Officer. We have also appointed Matt Watson as our General Manager of Supply Chain who started in September. I know Mark and his Executive team are fully focused on executing on our new strategy.

As I conclude my comments, on behalf of the Board, I would like to thank Mark, the management team, and our wider team across the business for their dedication to delivering and executing our strategy this year.

The Board maintains a very high level of confidence in our strategic direction, team and market position as we enter FY25. I look forward to providing you with more updates as we progress on our journey.

I will now hand over to Mark to provide a more detailed update on our strategy progress since August, and to also provide some colour on recent trading and the outlook for FY25.

CEO'S ADDRESS

Good morning and thank you Melanie.

I've been in the driver's seat for a year now and I'm pleased to see the positive progress the business has already made.

Growth Strategy

Our growth strategy, unveiled in June, is set to return Baby Bunting to a 10%+ EBITDA margin business by executing across three key pillars: growing our market share, increasing EBITDA, and improving return on invested capital for shareholders.

Starting with market share growth, as Mel mentioned, we are operating in a large addressable market. To capture more of it, we will deliver market-leading products, elevate the customer experience, and provide best-in-class service.

When it comes to boosting EBITDA, we are focusing on several key initiatives. Our priority is growing gross margin and developing a new media business to capture high-margin revenue streams. We are also working to scale our New Zealand operations, with the goal of achieving profitability in that market over the medium term. Additionally, we're driving operational efficiencies by improving productivity across the business, which will enhance our bottom line.

To improve return on invested capital, we will continue to prioritise disciplined capital management. This will include expanding and refurbishing our store network, enhancing inventory productivity, and re-platforming our ERP and POS systems. These initiatives will not only enable richer customer experiences, but also provide the scalability needed for future growth.

Executing on the plan

We are making strong progress implementing our strategy and it's pleasing to see the improving momentum in our performance as our strategic initiatives take effect.

For FY24, we reported a pro forma Net Profit After Tax of $3.7 million, within our guidance range of

$2 million to $4 million. Pleasingly our cash conversion from operations was 86%, up 430 bps vs pcp.

We've made positive progress against our inventory and labour productivity initiatives and our Net Debt finished the year at $13.0 million.

I would like to give you some insight into trading since we last briefed the market on the 20th of August, which continues to reflect the effectiveness of our strategy.

We are on track to deliver our targeted 40% gross margin, with Q1 FY25 gross margin of 40.3%, up 240 basis points compared to Q1 FY24.

As at 13 October, year-to-date sales delivered 2.4% total sales growth and 0.6% comp growth, with range innovation featuring strongly.

At the end of the first quarter, our net debt was $21 million, which is in line with plan and reflecting normal working capital cycles of the business as we build inventory for the key Q2 trade period. In terms of covenants, we are in compliance with our leverage ratio and fixed charge cover ratio, and we're confident about year ahead.

Our new store design remains on time and target, with the first store with the new design expected to be in market during Q3 FY25.

Grow Gross Margin

I'd like to highlight the five key initiatives driving our target of achieving a 40% gross margin in FY25.

First, simplifying our price architecture has been critical. In the past, layered promotions—like catalogue discounts, spend-and-save offers, and loyalty programs—eroded margins due to overlapping effects. By discontinuing our spend-and-earn in our loyalty program, which complicated the customer experience with complex redemption rules, we've improved gross margin by 150 basis points without impacting transaction volumes.

Second, we've renegotiated trading terms with a number of our top suppliers. These renegotiations, built on long-standing relationships and steady market growth, have delivered mutually beneficial outcomes. The trading terms negotiation program continues building on the strong progress we have made since August.

Third, we're amplifying our exclusive brand partnerships. Recent agreements with Nuna and Bugaboo, effective from 1 July, are delivering new revenue opportunities and increasing our attractiveness to consumers. And we are working on additional exclusive arrangements with other important brands.

Fourth, we are scaling our private label business. We've introduced new price points in categories like cots and furniture, leading to strong initial sales momentum. Our goal is to double the proportion of private label sales from 10% to 20% in the medium term. This expansion will reduce supply chain costs, improve margins, and deliver better value to our customers.

Finally, we're optimising inventory management and product performance. Targeted clearance programs are underway to reduce aged inventory and make room for range innovation. By refining our product curation and holding brands accountable at both national and local levels, we're ensuring more relevant offerings for consumers. This approach boosts customer satisfaction and opens up new margin-enhancing opportunities.

Our new store experience: timetable

One of the most exciting aspects of our new strategy for me is reimagining our store experience. This is crucial for driving comparable store sales growth within our existing fleet, especially given the aging design of some of our stores in Australia. I believe that retail stores serve multiple functions:

- They are experience centers for our customers
- Distribution hubs for product through our omnichannel fulfillment
- And stages for our brand partners to showcase innovation.

We aim to create dynamic environments that help brand partners present new products, securing exclusive rights and partnerships.

Our new format will shift from a category-led approach to an activity-based layout, grouping related products like cots, mattresses, and sleep essentials for a more convenient shopping experience. Final design plans are expected towards the end of this quarter with the first of the three refurbished stores expected to launch by the end of Q3 FY25.

Our progress – grow market share

Since we announced our strategy, we have been working hard and have delivered on several initiatives aimed at achieving the objective of growing our market share.

We have driven growth and reinforced our market leadership through new product innovations including the recent launch of 5 new premium prams and 5 new feeding brands with more than 100 unique SKUs.

In leveraging the Marketplace, we are providing customers with more choice and convenience. We've integrated Marketplace into our Merchandise team structure, aligning our 1P and 3P product selection and development. We offer around 17,000 products online from more than 90 3P sellers.

To bolster our omni-channel capability, testing of an Uber same day delivery service from our stores is underway. This new service is anticipated to go live in this quarter and will enable us to reach ~65% of the Australian population with Same Day and on demand delivery services. We have also commenced the pilot of 1-on-1 personalised appointments. This service will provide customers with dedicated time with an experienced team member. And, our pram cleaning services trial is on track for launch in Q2 FY25.

Our progress – grow EBITDA

As I've already mentioned, we've made headway towards our gross margin target of 40% in FY25 through renegotiating trading terms with our suppliers, progressing exclusive brands opportunities and working on our private label.

Having now enabled online fulfilment from all stores, we are beginning to see improving labour efficiencies in our Distribution Centre and in stores as more online fulfilment shifts to the store network.

In our media business, we are unlocking the value of our platform. We have completed an audit and valuation of our store and digital assets and work is underway on the rate card and platform to enable the retail media business. We expect to see the media business operational in Q3 FY25.

In New Zealand, we've updated trading terms with key suppliers and established dedicated marketing, merchandising, and supply chain teams. Matt Watson, our new GM of Supply Chain, recently joined the business. An immediate area of focus for Matt is taking forward the work we have done on reviewing our supply chain and distribution network in New Zealand. We have identified a number of opportunities which we expect to progress in the second half.

Finally, we continue to focus on driving operating leverage. We've re-shaped our core team structure to better align with customer shopping behaviours and deliver operating efficiency, and we are currently developing programs of work to lower our variable costs and leverage system investments.

Our progress – Return on invested capital

The third pillar of our strategy is focused on growing Return on Invested Capital. We've also made progress in this area. We opened our Maroochydore store in August 2024, and plan to open Belmont in Western Australia in December, and Westgate in New Zealand in Q4 FY25.

We will also be relocating our Mile End store in Adelaide to a new location a Marleston. The store will open in December.

For our new small format store, we have multiple locations under consideration as we work to have this new format in market this financial year. We have also identified our first three existing large format stores to be refurbished in the new store format.

In terms of inventory productivity, we are implementing benchmarks across our reporting suite and maintaining a strong focus on continuous improvement. And the aged inventory profile continues to improve in Australia and New Zealand.

FY25 Outlook

Looking ahead, we're maintaining our existing guidance for FY25. Pro forma NPAT is expected to be in the range of $9.5m to $12.5m. In that range:

- comparable store sales growth is between 0% and 3%
- gross margin is at 40% in FY25
- cost of doing business increases to include new and annualising store costs, wage inflation of 3.75% and additional roles and marketing to support strategy execution
- and our capital expenditure for FY25 is expected to be in the range of $10-13 million, which we plan to fully fund through operating cash flow.

We'll continue to optimise our market leading position through our new strategy, futureproofing our business and delivering for our customers and investors.

Before moving to formal business, I'd like to reiterate we have a clear strategy which we are executing on at pace. That strategy is already delivering results. We have a great platform, and a disciplined framework as to how we deploy our capital.

At the heart of everything we do, is a focus on providing a great customer experience and driving to deliver shareholder value.

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