

TEMPLE & WEBSTER GROUP LTD

ABN 69 608 595 660



ASX Announcement

24 October 2017

Chairman and CEO addresses to AGM: 24 October 2017

CHAIRMAN'S ADDRESS

The 2017 financial year was a year of tremendous transformation for the Group. It was the first full year as a listed entity, the first year under the new management team and myself as Chairman, and the first year of the new business plan which simplified the business by consolidating the Group's retail brands under the single "Temple & Webster" brand.

As a business we have now completed the transition from an entrepreneurial, privately owned company, to become Australia's largest, listed online retailer in the furniture and homewares market. The hard work of integrating three businesses into a single operating unit is complete, resulting in a business with a significantly lower cost base and substantially improved margins.

Management Changes

During the year Mark Coulter moved from interim to permanent Chief Executive Officer and Mark Tayler moved from interim to permanent Chief Financial Officer. They have done a great job at articulating and implementing a new strategy, stabilising the business, putting in place an engaged and highly qualified leadership team and setting the business onto a growth trajectory while controlling its costs.

On behalf of the Board, I would like to thank the senior management team and all our employees on a year of hard work.

2017 Results

The Group delivered revenue of \$64.5 million in the year ended June 30. Adjusting for the closure of our UK operations during the year, our like for like revenue increased by 11% over the corresponding period, which represents a pleasing result in what was a time of significant restructure and distraction.

The Group delivered a full year EBITDA loss of \$6.8 million, which represents a 54% improvement on the prior year loss of \$14.8 million. This improvement accelerated in the second half as the benefits associated with our margin and cost efficiency programs were realised. This is best illustrated by our second half result, of a \$1.8m EBITDA loss which was a 75% improvement on the same period the year before.

Our fourth quarter yielded an even better result, and was the first cash flow positive quarter for the Group.

The business ended the financial year with \$8.7 million in cash with no debt.

Market Fundamentals

While 2017 was year of restructure to ensure platform sustainability we can't lose sight of the bigger picture.

Temple & Webster operates in a ~\$13 billion market for furniture and homewares and while the Australian online retail market continues to grow it remains underpenetrated compared to other markets. This is especially true in our sector, with Euromonitor estimating that only ~4% of Australia's category sales are online (vs 12% in the US and 15% in the UK).

We expect the online penetration growth in Australia to continue as the oldest Millennials turn 35 this year and

enter into Temple & Webster's core customer demographic of 35-55 year olds. Millennials have grown up with the internet and already make a significant number of their purchases online in other categories such as fashion and home electronics.

Looking ahead

The outcomes of our restructuring program have set us up well for 2018, and it is great to see the business starting to capture the economies of scale benefits and leverage our position as market leader. The timeline for reaching breakeven has always been during calendar year 2018, with financial year 2019 to be the first full year of profit – and we remain confident in this timeline.

On behalf of the directors of the Group, I would like to thank you, our shareholders, for your support and contribution during this transformative period. While the business has undergone significant and rapid change, we continue to be the leading online retailer in our market and are best positioned to capture the growth of our category over the coming years.

Thank You

In closing, I'd like to take this opportunity to again acknowledge the hard work and dedication of Mark and his management team and extend my thanks to my fellow Directors Sue Thomas and Conrad Yiu and Company Secretary, Mike Egan for their contribution. I'd also like to express my sincere gratitude and recognize the service of our former Chair, Carol Schwartz.

CEO's ADDRESS

Good morning all, and thank you for your time.

Firstly, I want to say how proud I am of the Temple & Webster team. The last year was a busy one, to say the least, and the passion and enthusiasm that our "Tempsters" deliver each day for our customers is truly outstanding. The results that Stephen just outlined would not have been possible without the amazing team that we are lucky to have.

One team, one website

2017 was a year of focusing on the core and prioritising our path to profitability. To that end the major strategic decision we made was to move the business from a multi-brand strategy to a single brand strategy. This involved integrating the teams and websites of our acquisitions, ZIZO (Wayfair Australia) and Milan Direct, into Temple & Webster. We now run one website (www.templeandwebster.com.au), which is Australia's largest online retailer for furniture and homewares. We still import a range of products under the Milan Direct brand which are sold through Temple & Webster.

As part of this initiative, we consolidated our 3 Australian offices into our new Headquarters in St Peters, Sydney and reduced our onshore headcount by around 30% by removing duplication across various functions.

Importantly we have also been able to take 3 marketing budgets and consolidate the spend to solely promoting the "Temple & Webster" brand. Along with growing brand awareness of our flagship brand, this has allowed us to improve our marketing efficiency and our second half cost per first time customer reduced by more than 30% against the same period the year before. Pleasingly, in the second half we were able to capture the same number of first time customers under the single brand as the three brands combined the year before.

Temple & Webster is now the clear market leader in the online retail market for furniture and homewares. Each month www.templeandwebster.com.au delivers around 10 million page impressions to over 1 million visitors. The site has a permanent catalogue of around 130,000 products across 180 sub-categories, and if you can think of something in your home we more than likely sell it. Most of the business is run on a drop-shipping business model, with 80% of our orders being delivered to our customers directly from our suppliers. These orders carry no inventory risk. The remaining 20% of our orders are from our owned-inventory products, which are mostly furniture. We continue to use the substantial

amount of data we have to inform our buying decisions, and over the year have improved our inventory turn from ~2 to ~4.

Customer Service, Fast Shipping and Better Delivery Experience

Improving our customer service and delivery experience has been high on the priority list for the business over the last year. We want shopping with us to be easy and hassle free, and the in-home experience to match. This year we opened our Manila office which has allowed us to cost-effectively scale our customer care team, and we now have more team members than we have ever had before. We have begun to put our customer care team through our own Style School so that customers can speak to one of our team members for advice and we also launched live chat which has been a great success. We have worked hard with our product suppliers, our warehouse team and our shipping vendors to reduce the shipping time, and our average dispatch time is now 2.2 days. These improvements along with many others, has seen our Net Promoter Score improve by 40%.

Significantly Improved Margins

As part of our strategy to prioritise our path to profitability, we have significantly improved our margins across the board. Comparing FY16 to the second half of FY17, our delivered margin has improved by 7.8 points due to tactical price increases, better terms with our suppliers and we have worked on lowering our shipping cost and warehouse costs through better supplier and inventory management.

We have reduced our merchant fees through better negotiations and customer service costs through our offshoring initiative; and as already discussed we have significantly improved our marketing efficiency. The net result of these changes is that we now have a ~14% contribution margin, which combined with a lower fixed cost base - means profitability is within reach. These new margins, which continue to improve, along with our current growth trajectory mean we will reach profitability during the next calendar year. Importantly this was the original timeline to reach breakeven, we will just be achieving it via a different route.

Where to from here

Our customer value proposition is built on 3 pillars:

- Firstly, having the **largest range** in furniture and homewares of any retailer (online or offline) - this includes having a core range which is unique to Temple & Webster either imported directly or provided exclusively by our key drop-ship suppliers
- Secondly, combining this range with **the most inspirational content** and services in our category - our content is already the best in the country, and we are adding services such as Style School and interior design advice in our customer care team to make sure we are delivering our vision of making the world more beautiful, one room at a time. Shopping in our category is an emotional purchase decision, and beautiful magazine quality content including styled room shots is an important way customers shop for their homes;
- And finally, delivering **world-class service and a delivery experience** to match - over the coming years we will be focusing on the delivery experience, giving our customers more options, especially around bulky delivery. For example, in the coming weeks we are reopening our Melbourne showroom as a Temple & Webster Click & Collect facility, and if you are a Melbourne customer ordering anything from our owned inventory range, you will be able to pick up your order at your own convenience, saving cost and time. The lion's share of our sales are already in the bulky categories of furniture and rugs, and we see differentiating our bulky service experience as a future competitive advantage especially against the non-bulky retailers such as Amazon.

These customer propositions are backed up by the strength of our data-driven marketing capabilities, our best in class technology platform which we acquired from Wayfair US (the leading online retailer in our category in the world), and our new growth initiatives such as our Trade & Commercial division, which has experienced 200% account growth in the last 12 months.

Trading Update

It has been great to see that the significant progress we made in 2017, has continued into financial year 2018.

Revenue year to date (to Oct 22) was \$20.4m, which represents a:

- 2% growth when we exclude milandirect.co.uk (exited during 1HF17);
- 50% growth when we also exclude milandirect.com.au (exited during 1HFY17);
- 15-25% estimated underlying growth rate (which takes into account assumptions on how much revenue we retained as part of the Milan Direct AU integration)

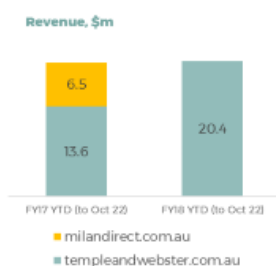
Our underlying growth is being driven by growth in both Active Customers and Revenue per Active Customer on templeandwebster.com.au which is pleasing to see, however true like for like comparisons will become visible in H2FY18.

Cash ended 30 September at \$8.3m, which was ahead of expectations.

As Stephen has mentioned, our current growth trajectory and cash balance allows us to be confident in our stated goal of reaching profitability in 2018 within our existing reserves, with financial year 2019 being the first full year of profit.

FY18 Trading update – Great start to the year

- Revenue YTD (to Oct 22) of \$20.4m, up 2% year on year including 100% of Milan Direct AU
- Q1 is seasonally weakest quarter
- Excluding Milan Direct, Group grew 50%
- Underlying growth estimate of 15-25% (which will be visible from 2HFY18)
- Cash ended 30 September at \$8.3m ahead of expectations

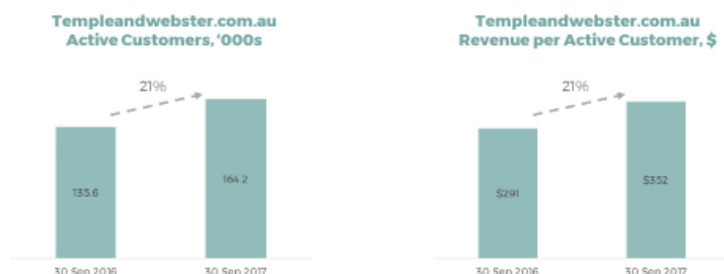


Cash (30 Sep): \$8.3m
vs 30 June: \$8.7m

Underlying growth:
15-25%
Will be visible from
2HFY18

NS All numbers are Australian operations only

Templeandwebster.com.au's Active Customers and Revenue per Active Customer are growing strongly



NS Active customers are the number of unique customers who have transacted in the last twelve months (LTM). Temple & Webster numbers include 2020's active customers and revenue. All numbers are Australian operations only. Group active customers as at 30 Sep are 775k.

People

I am a big believer in the expression “culture eats strategy for lunch”. While strategy and operational performance are critical, nothing happens without an energised team – especially for a young company in an emerging market. Luckily, we have a team full of seriously talented people who inspire me every day with their beautiful solutions. We are a restless bunch, always thinking we can do better, but at the same time, we like to have fun – and I think that comes across in how we communicate with our customers.

Finally, thank you to our shareholders for your continued support. When my co-founders and I started Temple & Webster, we did so with the aim of making the world a more beautiful place, by changing the way people shop for their homes. The execution of that vision started with offering beautiful items for the home carefully curated from a handful of suppliers and published to our members each day. It has evolved so that Temple & Webster is now an open ecommerce site with the largest range in our category in Australia, with around 130,000 products from hundreds of suppliers, the lion’s share of which are shipped within a few days. It has been quite a journey - however it is comforting that our vision hasn't changed.

The execution of that vision will allow us to capture the market growth for years to come, and ensure we are delivering value to our shareholders.

For further information on this announcement, please contact:

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About the Temple & Webster Group

Temple & Webster is Australia’s leading online retailer for the home. We are famous for offering the greatest range, the most inspiring content and world-class service. Our vision is to make the world more beautiful, one room at a time. Our mission is to deliver beautiful solutions for our customers’ homes and workspaces.

Temple & Webster has over 130,000 products on sale from hundreds of suppliers. The business runs an innovative drop-shipping model, whereby products are sent directly to customers by suppliers thereby enabling faster delivery times, and reducing the need to hold inventory thereby allowing a larger product range.

The business also imports and sells furniture under the Milan Direct brand, which has almost 10 years of experience in sourcing and selling private label furniture in the online Australian market.

The Temple & Webster Group is headquartered in Sydney, Australia and is listed on the Australian Securities Exchange under the code TPW.