

ASX Announcement
22 February 2023

Step One Clothing Limited 1H23 Result

Step One Clothing Limited (ASX:STP) (“Step One” or “the Company”), a leading online, direct to consumer, innerwear brand, today announces its financial result for the six months ending 31 December 2022 (1H23).

Highlights

- Revenue of \$35.9 million, representing a 5.7% decrease to pcp¹ (1H22: \$38.1 million)
- Statutory EBITDA of \$7.5 million, up 395% vs pcp (1H22: \$2.5 million)
- Proforma EBITDA of \$7.5 million, up 0.5% vs pcp (1H22: \$7.4 million)
- Gross margin remains at a strong level of 80.7%, down 2.4% vs pcp (1H22: 83.1%)
- Average order value (AOV²) up 16% to \$90.26 (1H22: \$78.06)
- Over 1.2 million² global customers, with 136,000 new customers added in 1H23 (1H22: 193,000)
- Inventory reduction plans in place as the speed and flexibility within global supply chain improves
- Strong financial position, with closing cash of \$32.6 million and no debt

Step One Founder and CEO, Greg Taylor said:

“This half we successfully pivoted from prioritising top-line growth to a focus on profitability in response to challenging trading conditions in our key markets. Simultaneously, we continued to build our position as a leading brand for sustainable and quality innerwear products. Our products continue to resonate well with our customers, reflected in an increase in average order value, and over 136,000 new customers added in the first half. We continue to maintain a strategic focus on our core offering as we explore product adjacency opportunities.

“We are a nimble and adaptable business, and have been able to change our advertising channel mix to ensure it remains cost effective in our drive to acquire new customers. We are mindful of our elevated inventory position, and whilst this has helped us manage global shipping delays to-date, we will maintain a prudent approach to inventory management, focusing on reducing the levels of existing inventory SKUs, while ensuring we maintain flexibility to support new product launches.

“I remain steadfast in my belief in the products and my commitment to continuing to build this business. I am confident that as macro-economic conditions ease Step One will be well positioned to pursue its international ambitions.”

Key Metrics

| | | 1H23 | 1H22 | Variance | |
|---------------------------------|--------|--------|---------|----------|---------|
| | | | | \$/# | % |
| Financial | | | | | |
| Revenue | \$'000 | 35,893 | 38,076 | (2,183) | -5.7% |
| Gross Margin | % | 80.7% | 83.1% | | -2.4pcp |
| EBITDA Statutory | \$'000 | 7,473 | (2,529) | 10,002 | 395.5% |
| EBITDA Proforma ³ | \$'000 | 7,473 | 7,434 | 39 | 0.5% |
| EBITDA Proforma as % of Revenue | % | 20.8% | 19.5% | | 1.2pcp |
| NPAT Statutory | \$'000 | 5,275 | (3,816) | 9,091 | 238.2% |
| NPAT Proforma ³ | \$'000 | 5,275 | 4,969 | 306 | 6.2% |

| | | 1H23 | 1H22 | Variance | |
|--------------------------------|-------|------|------|----------|---------|
| | | | | \$/# | % |
| Operational² | | | | | |
| Website Visits | #m | 7.0 | 7.1 | (0.1) | -1.4% |
| Conversion Rate | % | 5.0% | 6.3% | | -1.3pcp |
| Customer Orders | #'000 | 375 | 488 | (113) | -23.2% |
| New Customers | #'000 | 136 | 193 | (56) | -29.5% |
| Returning Orders as % of total | % | 64% | 60% | | 4pcp |

1. prior corresponding period (pcp) is the 6 months ending 31 December 2021, also referred to as 1H22.
2. operational data is for Step One DTC sales and excludes transactions with Amazon customers.
3. refer to separate Investor Presentation for reconciliation of Statutory to Proforma amounts and definitions of metric calculations. There are no proforma adjustments in the 1H23 financial results.

Operational Review

During the first half of FY23, Step One successfully prioritised profitability over growth as foreshadowed in its 28 October 2022 market update. First half profitability reflects the continuation of costs (such as COGS, distribution and transaction fees) incurred in 2H22, with a reduction in advertising spend and improving efficiency.

Step One continued to experience challenging trading conditions across all of its markets during the period, driven by weak consumer sentiment, as a result of inflationary pressure and rising interest rates impacting discretionary spending. The Company delivered revenue of \$24.1 million in its Australian segment, down 5.8% on pcp. In the UK, the Company delivered revenue of \$10.6 million, down 3.7% on pcp. In the USA, revenue was \$1.1 million, down 19.6% on pcp.

The key initiatives and developments implemented by Step One across all of its markets during the period are outlined below.

Product and Pricing

Step One's products continue to resonate with its customers. During the first half, the Company introduced a new core colour range for both men and women in response to demand for brighter colours, with strong customer feedback. Step One continued to use Limited Edition Colour (LEC) releases as a way to drive sales across its customer base. Following a period of frequent releases, the Company has strategically slowed down the release rate to build anticipation and hype in between colour releases.

Notably, the Average Order Value (AOV) increased by 16% to over \$90 resulting from both price and Average Order Quantity (AOQ) increases. The price increases were set in place late May 2022; however, improved management of discounts resulted in a better price realisation rate. The AOQ increased with a greater focus on upsell techniques (e.g., buy-one more item for a reduced price), as well as discounted mystery packs used to sell 'stranded' (i.e a full range of sizes no longer available and no longer sold online) sizes and prints used during key sale events.

Step One's development team continued to research and test product adjacencies, whilst maintaining focus on its core offering. An expansion of the women's line is expected to be released later in 2H23.

Advertising and Customer Traffic

In the first half, Step One focused its advertising strategy on customer recruitment, continuing to tailor content and channel use to each market. The advertising mix is regularly changed to maximise value. Additional focus has recently been placed on leveraging the customer database and deploying organic content across social media including Instagram and TikTok.

In line with decreased customer demand, the number of website visits decreased during the period by 1.4%. The rate of conversion decreased to 5.0%, due to a shift in advertising channels, but this remains strong when compared to industry standards.

Step One's main sales events continued to be successful, especially in attracting the more price sensitive customer. The sales events are being supplemented with a broader range of customer acquisition initiatives through participation in other popular ecommerce sale events, including Click Frenzy.

Processes and Capability

The Company continues to adapt to the evolving macro environment, investing in processes and capability, whilst focussing on profitability. Step One has improved its capability to segment its customer database and produce customised campaigns which will be supported by an improved tailored online experience. A UK based team has recently been established to improve customer advocacy with localisation of content and communication style.

Channels

During the first half, Step One made an initial move towards selling through indirect channels, namely Amazon. Revenue is growing slowly through this channel, but not yet material to overall revenue and profitability. Step One will seek to grow this channel while exploring partnerships with those retailers with a strong online presence to build brand awareness.

Inventory

Step One's inventory is not perishable or seasonal. Nonetheless, the Company responded to decreased demand by reducing the placement of new production orders in June 2022. Notwithstanding this reduction, inventory levels did increase (reaching a peak in October 2022) for a period of time, but have now decreased as shown below:

| \$m | 31 Dec 21 | 30 Jun 22 | 31 Oct 22 | 31 Dec 22 |
|-----------------|-----------|-----------|-----------|-----------|
| Inventory value | 17.5 | 25.4 | 30.0 | 26.7 |

Plans are now in place in the 2H23 to decrease this level of inventory.

Environment, Social and Governance (ESG)

During the first half, Step One received Forest Stewardship Council (FSC) accreditation, further bolstering its ESG credentials. This completes the journey of attaining FSC accreditation of the suppliers within the Company's supply chain. The FSC is an international NGO dedicated to promoting responsible management of the world's forests. By choosing products with FSC labels, customers know that all the materials used by Step One are sourced from forests that have been audited by an independent third party to confirm they are managed according to FSC's rigorous social and environmental standards.

Strong Financial Position

Step One is in a strong financial position, with closing cash of \$32.6 million, a robust balance sheet and no debt.

Cash flows were impacted by a reduction in trade payables of \$6.4 million as production orders were reduced half-way through calendar year 2022.

No dividend has been declared for the period ending 31 December 2022.

Strategy and Outlook

Step One remains confident of the opportunities in each country and its ability to execute on the Company's strategy as the economic environment improves. In the meantime, Step One will continue to prioritise profitability over growth.

During the second half, the Company's strategy will be to focus on:

- Expanding the customer funnel
- Expanding the range of products for both men and women
- Investing in capability and product innovation
- Expanding sales channels and marketplaces
- Continuing to improve the customer experience

Step One expects softer trading conditions to continue into 2H23. Due to this economic uncertainty in all jurisdictions, Step One is not providing guidance for FY23.

-ENDS-

This announcement was authorised for release by the Board of Step One Clothing Limited.

Investor Conference Call & Webcast

An Investor Presentation has been lodged with the ASX today, together with this announcement. Step One will host a conference call and webcast for analysts and investors at 9.30am AEDT today.

Conference call registration:

<https://registrations.events/direct/OCP60957>

Live audio webcast registration:

<https://webcast.openbriefing.com/stp-hyr-2023/>

About Step One Clothing

Step One is a leading direct-to-consumer online retailer for innerwear. Step One offers an exclusive range of high quality, organically grown and certified, sustainable, and ethically manufactured innerwear that suits a broad range of body types. Step One has transformed the innerwear market with an innovative design and cult-like following and has quickly grown into a multinational company operating in Australia, the US and the UK.

Further information can be found on the Company's website <https://stepone.group/>.

For all enquiries, please contact:

Maddie Seacombe
Citadel-MAGNUS
mseacombe@citadelmagnus.com
+61 2 8234 0114 / 0402 999 291

Saskia West
Citadel-MAGNUS
swest@citadelmagnus.com
+61 2 8234 0109 / 0452 120 192