

STEP ONE™

1H23 RESULTS PRESENTATION



22 FEBRUARY 2023

Greg Taylor, CEO and Founder
Nigel Underwood, CFO

AGENDA

- 01 1H23 Results Highlights
- 02 1H23 Results Overview
- 03 1H23 Financial Summary
- 04 Market Context and Strategy
- 05 Outlook
- 06 Questions



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1H23 Results Highlights

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Profitable with a strong balance sheet

Revenue

\$35.9m

Down 5.7% vs pcp

Gross Margin

80.7%

Down 2.4% vs pcp

Average order value (AOV)¹

\$90.26

Up 16% vs pcp

FSC Certification

End-to-end FSC supply chain certification

EBITDA

\$7.5m

20.8% of revenue
Up 0.5% vs proforma pcp²

Cash

\$32.6m

Down 4.6% from Jun22

Website Visits

7.0m down 1.4%
vs pcp

5.0% conversion rate

Customers

1,237,000

136,000
New customers

1. sold revenue, excluding Amazon sales

2. includes proforma adjustments in comparative periods, details of which are provided on page 29. There are no proforma adjustments in 1H23.

1H23 RESULTS OVERVIEW



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1H23 Operational Highlights

Making better use of what we have

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PRODUCT

- Introduction of new **core colour range** for Men and Women
- Continued **Limited Edition Colour Drops** (LECs); however, now slowing down the release rate
- Continued research and testing of **product adjacencies**
- Acknowledging inventory build-up and commencing **rationalisation**

MARKETING

- **Targeted campaigns** to disengaged customers
- Improved **upsell** offer and increase cart size
- **Tailoring of content** and channel to each market
- Increasing focus on **customer recruitment**

PROCESSES / CAPABILITY

- Recognition of ESG credentials with **FSC certification** for the Step One brand
- Improved use of the **customer database**
- Continued investment in **capability**
- Improving **customer advocacy** with increased **localised** presence



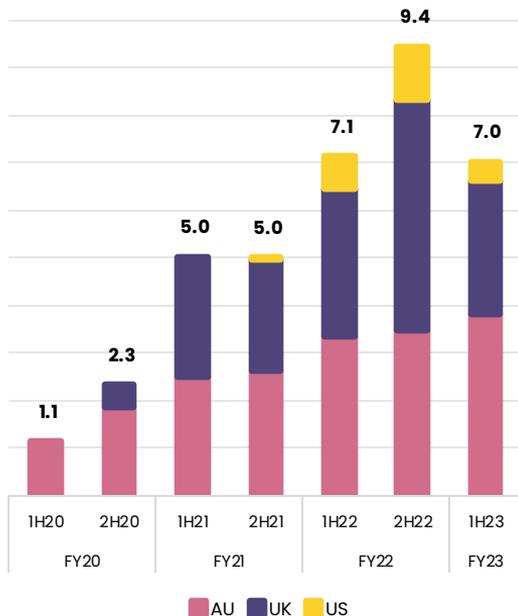
Strong Online Engagement

Increased conversion rates and customer database growth



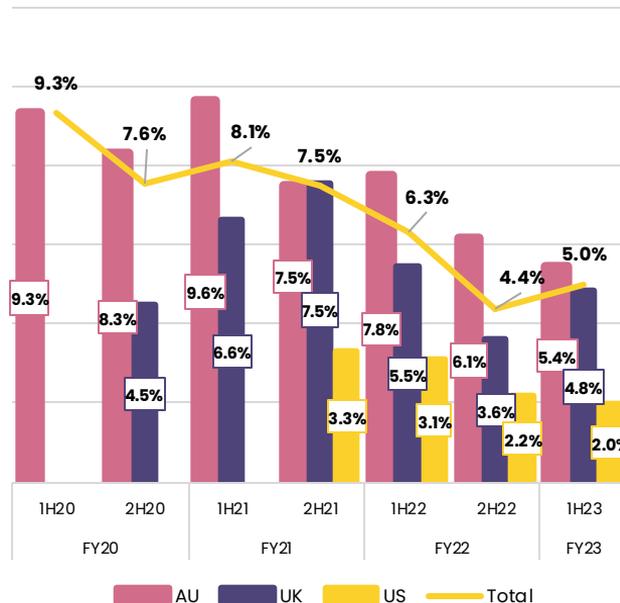
WEBSITE TRAFFIC

6 months, M, excl Amazon



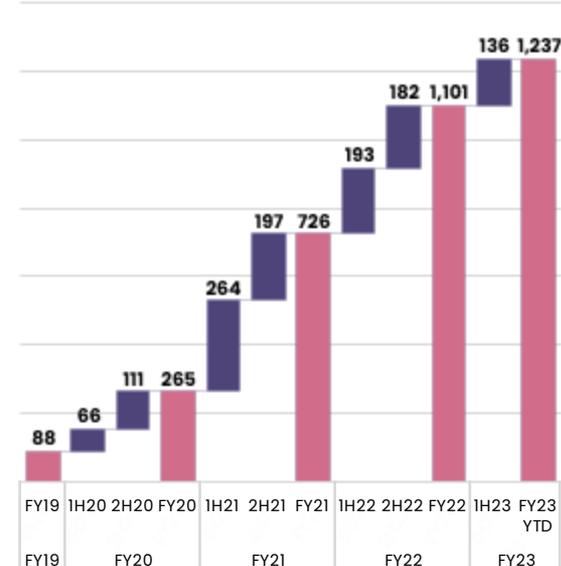
AVERAGE CONVERSION RATE

6 months, % of website visits, excl Amazon



CUSTOMER DATABASE GROWTH

6 months, #'000, excl Amazon

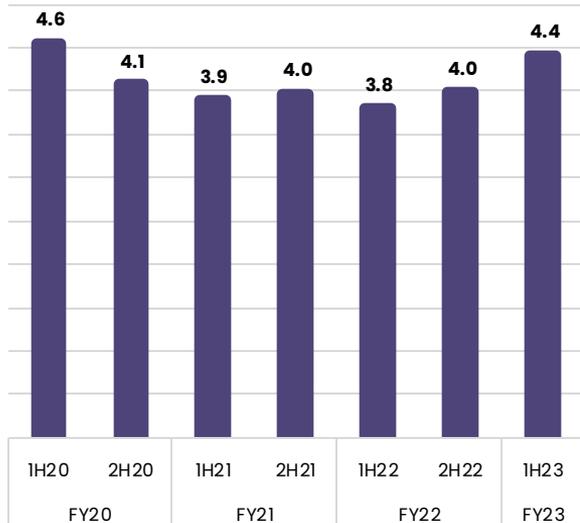


Value proposition remains strong

Price has increased along with AOQ indicating customer value proposition remains with customers who know the product

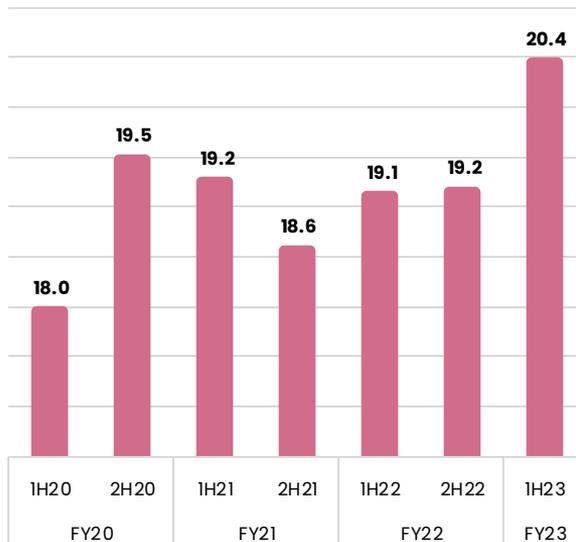
AVERAGE QUANTITY PER ORDER (AOQ)

6 months, #/order, excl Amazon



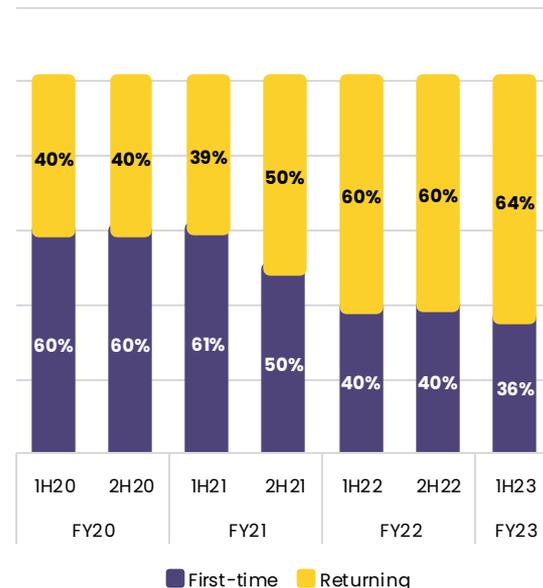
AVERAGE REVENUE PER ITEM

6 months, \$AUD/item, excl Amazon



CUSTOMER MIX

6 months, % of all Orders, excl Amazon

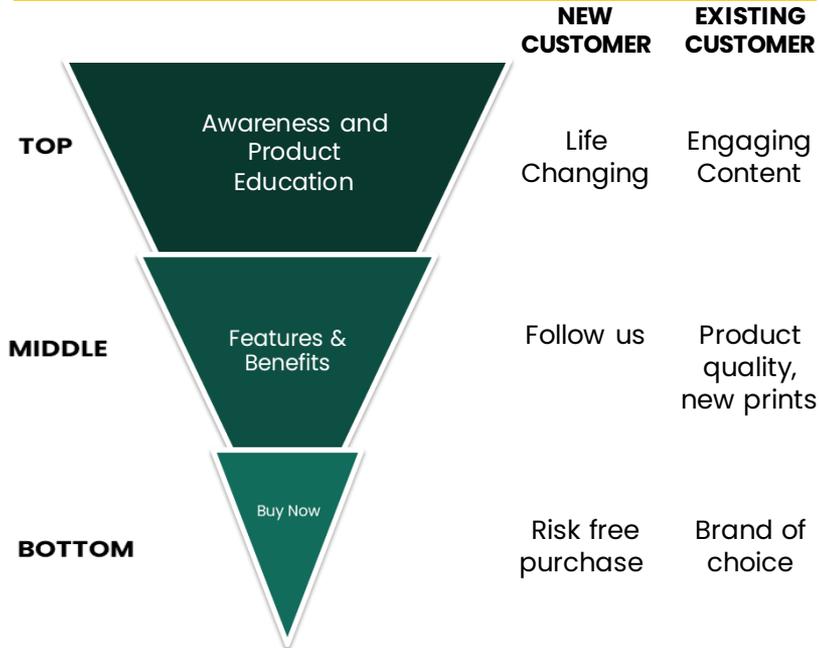


Importance of DTC model

Driving brand awareness while continuing to engage with loyal following

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MARKETING STRATEGY



MARKETING CHANNELS

TV AND PR
(awareness)



SOCIAL MEDIA
(engagement)



ORGANIC CONTENT
(social proof)



EMAIL AND MESSAGING
(urgency)



PAID DIGITAL
(conversion)



1H23 FINANCIAL SUMMARY



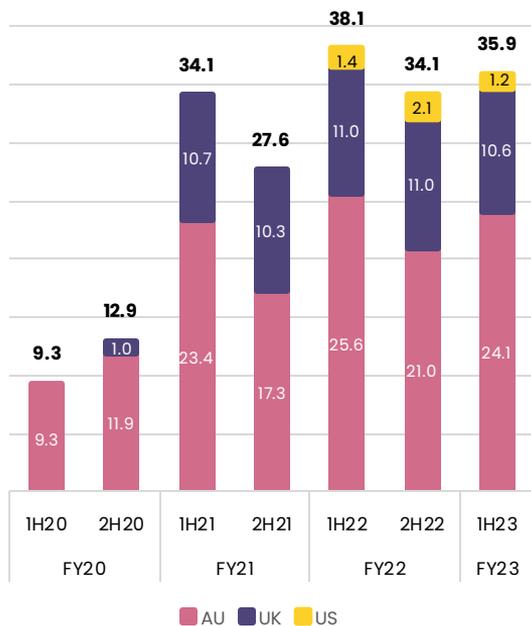
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Financial Highlights

Strong revenue and attractive gross profit margins in a difficult market

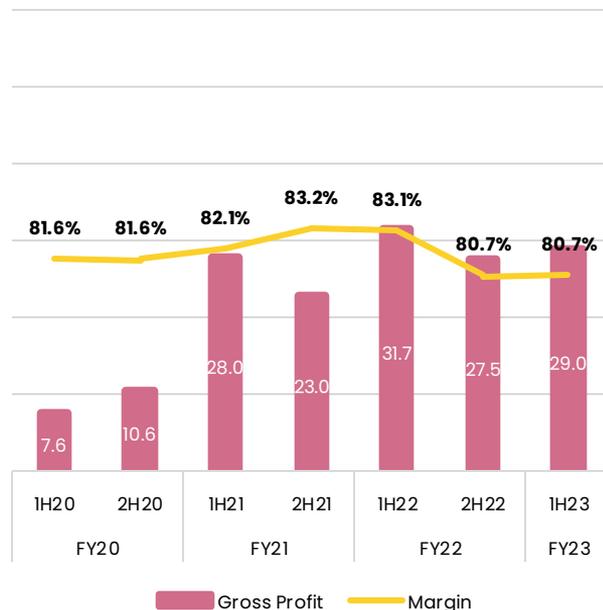
SALES REVENUE

6 months, \$M



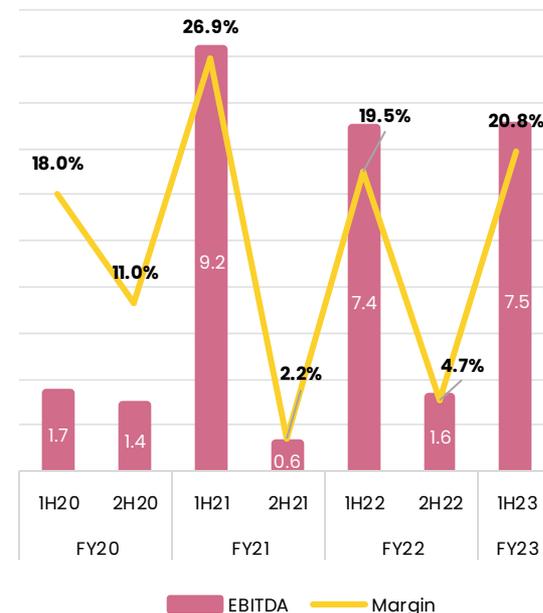
GROSS PROFIT

6 months, \$M/%



PROFORMA EBITDA¹

6 months, \$M/%



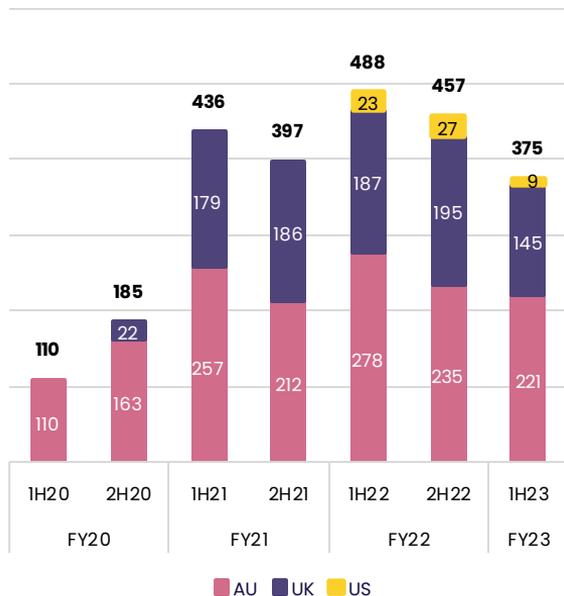
1. Includes proforma adjustments in comparative periods, details of which are provided on page 29. There are no proforma adjustments in 1H23.

Strong Operational Metrics

Strong returning customer order rates demonstrates trust in our product

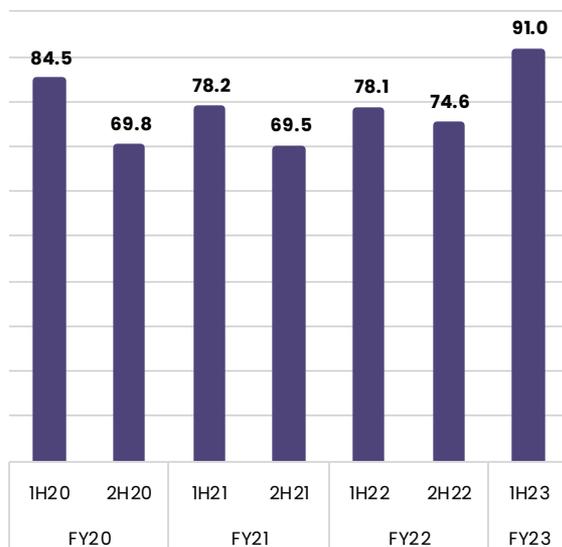
CUSTOMER ORDERS¹

6 months, #'000, excl Amazon



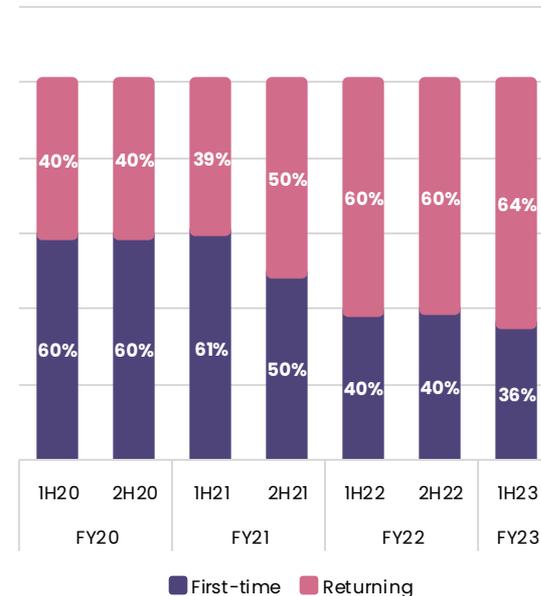
AVERAGE ORDER VALUE (AOV)²

6 months, \$ per Order, excl Amazon



CUSTOMER MIX³

6 months, % of all Orders, excl Amazon



Source: Shopify

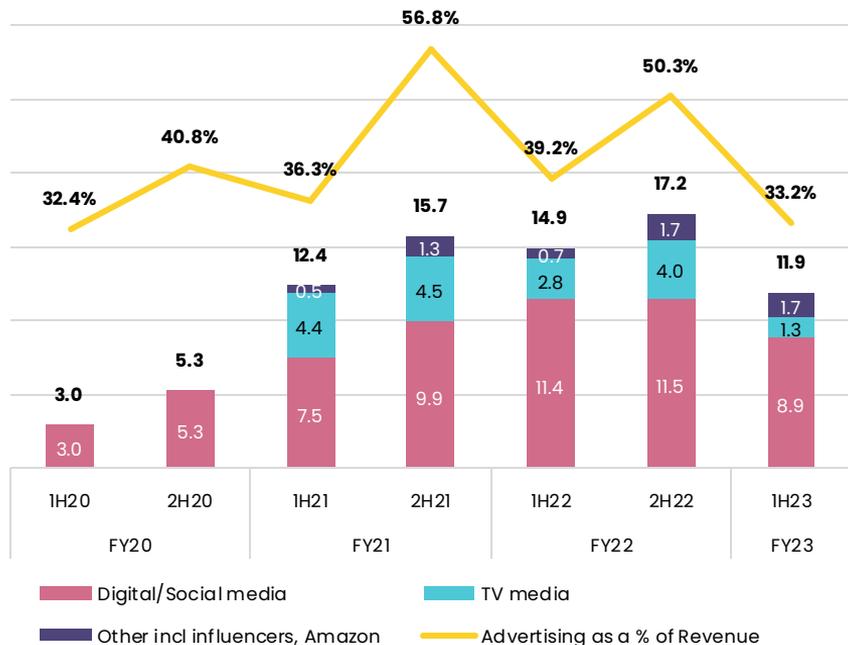
1. Based on Sold Orders/Revenue in period, which excludes period end revenue recognition adjustments 2. AOV reflects the average dollar amount spent each time a customer places an order on the Step One website based on order date. 3. **Returning customer.** a customer who has at any point in time made a purchase based on order date. **New or First-time customer.** a customer who has not previously made a purchase based on order date

Strong Operational Metrics

Marketing and advertising key to growing the business

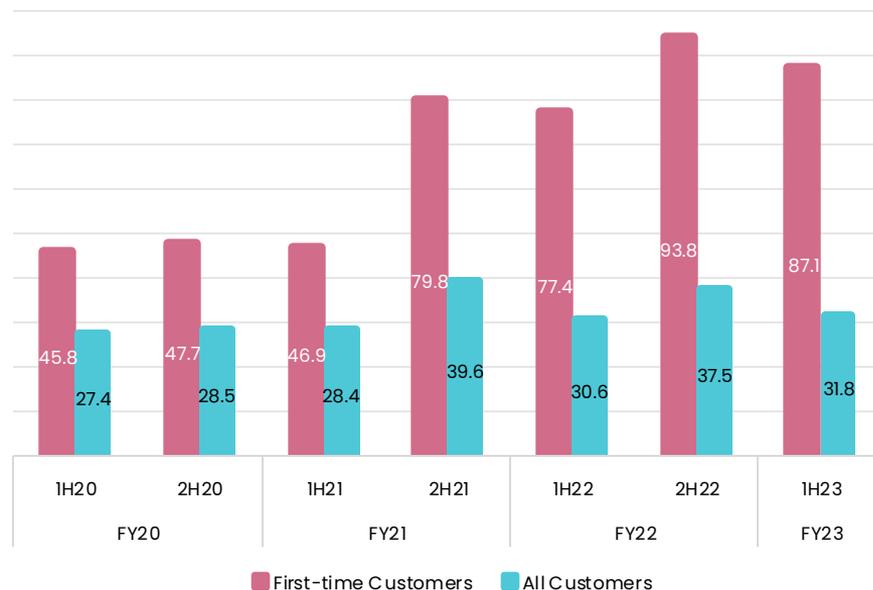
ADVERTISING^{1,2}

6 months, \$M/% of Revenue



COST TO ACQUIRE CUSTOMERS^{1,2,3,4}

6 months, \$ per customer order, excluding Amazon



Source: Management Accounts, Shopify

1. Adjusted retrospectively for proforma adjustments detailed on page 29, 2. 1H20 and 2H20 advertising 100% allocated to social media as split not available 3. The total advertising and marketing costs divided by the total number of customer orders based on order date 4. The total advertising and marketing costs divided by the new / first-time customer orders based on order date.

Income Statement

	1H23	1H22 ¹	Movement	
	\$'000	\$'000	\$'000	%
Australia	24,113	25,601	(1,488)	-5.8%
UK	10,619	11,031	(412)	-3.7%
USA	1,161	1,444	(283)	-19.6%
Revenue	35,893	38,076	(2,183)	-5.7%
Cost of sales	(6,925)	(6,424)	(501)	7.8%
Gross profit	28,968	31,652	(2,684)	-8.5%
Gross Margin %	80.7%	83.1%		-2.4pcp
Advertising & marketing ¹	(11,916)	(14,930)	3,014	-20.2%
Advertising as percent of revenue	33.2%	39.2%		-6pcp
Distribution & fulfilment	(4,472)	(4,415)	(57)	1.3%
Distribution as percent of revenue	12.5%	11.6%		0.9pcp
Merchant and transaction fees	(1,262)	(947)	(315)	33.3%
Transaction fees as % of Revenue	4.4%	3.0%		1.4pcp
Contribution profit	11,318	11,360	(42)	-0.4%
Contribution as percent of revenue	31.5%	29.8%		1.7pcp
Overhead¹	(3,845)	(3,926)	81	-2.1%
EBITDA¹	7,473	7,434	39	0.5%
EBITDA as % of Revenue	20.8%	19.5%		1.3pcp
PBT	7,573	7,431	142	1.9%
Income tax expense	(2,298)	(2,462)	164	-6.7%
Proforma NPAT	5,275	4,969	306	6.2%
Proforma expense adjustments	0	(9,963)	9,963	-100.0%
Proforma tax adjustments	0	1,178	(1,178)	-100.0%
Statutory NPAT / (NLAT)	5,275	(3,816)	9,091	-238.2%

COMMENTARY

- Revenue declined 5.7% on pcp
- Gross margin declined 2.4% from pcp, however, is consistent with the 80.7% level in 2H22. Nonetheless, this remains a strong gross margin
- Advertising was 33.2% of revenue, representing a decrease on the 39.2% level in the pcp. This results from a focus on improving spend efficiency over the period
- Cost pressure on global logistics and distribution costs remain
- Other costs support business growth including capability

1. Comparative information includes proforma adjustments per page 29.

Balance Sheet

	As at	As at	Variance	
	31 December 2022	30 June 2022	\$'000	%
ASSETS				
Current Assets				
Cash and cash equivalents	32,550	34,110	(1,560)	-4.6%
Trade and other receivables	269	42	227	540.5%
Inventories	26,705	25,383	1,322	5.2%
Other assets	1,228	1,013	215	21.2%
	60,752	60,548	204	0.3%
Non-current Assets				
Property, plant and equipment	60	19	41	215.8%
Intangibles	47	50	(3)	-6.0%
Deferred tax assets	3,026	2,569	457	17.8%
	3,133	2,638	495	18.8%
Total assets	63,885	63,186	699	1.1%
LIABILITIES				
Current Liabilities				
Trade and other payables	7,266	12,043	(4,777)	-39.7%
Contract liabilities	1,214	1,507	(293)	-19.4%
Income tax payable	1,158	779	379	48.7%
Employee benefits	217	197	20	10.2%
	9,855	14,526	(4,671)	-32.2%
Non-current Liabilities				
Employee benefits	27	19	8	42.1%
	27	19	8	42.1%
Total Liabilities	9,882	14,545	(4,663)	-32.1%
Net Assets	54,003	48,641	5,362	11.0%
EQUITY				
Issued capital	52,496	52,496	0	0.0%
Reserves	181	94	87	92.6%
Retained profits/(accumulated losses)	1,326	(3,949)	5,275	-133.6%
Total Equity	54,003	48,641	5,362	11.0%

COMMENTARY

- Strong cash of \$32.6m with no debt
- Step One's inventory is not perishable or seasonal. Step One reduced the placement of new production orders in June 2022; however due to lag effects in the production to delivery cycle, inventory levels increased, reaching a peak in October 2022. From this time, inventory levels have decreased.
- Trade payables reduced \$6.4m as production orders were reduced mid 2022. Most orders have since been delivered and paid for prior to Dec 22
- Step One remains a capital light business model

Cash Flow Statement

	1H23	1H22	Variance	
	\$'000	\$'000	\$'000	%
Cash flows from operating activities				
Receipts from customers (inclusive of GST/VAT)	40,158	40,818	660	1.6%
Payments to suppliers and employees (inclusive of GST/VAT)	(39,656)	(42,138)	(2,482)	6.3%
	502	(1,320)	(1,822)	-362.9%
Interest received	111	0	(111)	-100.0%
Income taxes paid	(2,063)	(3,702)	(1,639)	79.4%
Net cash from/(used in) operating activities	(1,450)	(5,022)	(3,572)	246.3%
Cash flows from investing activities				
Purchases of equipment	(50)		50	-100.0%
Net cash from/(used in) investing activities	(50)	0	50	-100.0%
Cash flows from financing activities				
Proceeds from issue of shares	0	40,000	40,000	0.0%
Proceeds/(repayments) to related parties	0	3,409	3,409	0.0%
Share issue transactions costs	0	(5,800)	(5,800)	0.0%
Dividends paid	0	(4,800)	(4,800)	0.0%
Net cash from/(used in) financing activities	0	32,809	32,809	0.0%
Net increase in cash and cash equivalents	(1,500)	27,787	29,287	-1952.5%
Cash and cash equivalents at the beginning of the financial year	34,110	10,845	(23,265)	-68.2%
Effects of exchange rate changes on cash and cash equivalents	(60)	54	114	-190.0%
Cash and cash equivalents at the end of the financial year	32,550	38,686	6,136	18.9%

COMMENTARY

- Cash receipts impacted by seasonality in revenue recognition (contract liability) near sale events. Adjusting for these cash receipts reduced 6% in line with revenue reduction
- Cash outflows impacted by increases in operating costs offset by reduced inventory purchases
- Cash outflows were impacted by a reduction in trade payables of \$6.4m as production orders were reduced mid 2022. Most orders have since been delivered and paid for prior to Dec 22
- Capital light business model

MARKET STRATEGY



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Strategy

Global growth opportunity

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MARKET SIZE¹

Every person needs underwear

- USA \$6.2b
- UK \$1.5b
- AU \$0.6b

That's just the men. The women's market is bigger

CAPITAL LIGHT

Low capital invested

- **Ownership of Brand**, designs, and personality
- **Specialists** manage manufacturing, warehousing and logistics ensuring high quality and lowest cost
- Class leading SaaS systems support the operation

PARTNERSHIPS

Engage in partnerships

- Grow brand presence on **Amazon** and access a large customer pool
- Evaluate other online or retail **partnerships** on their commercial merits and alignment in areas including customer service and ESG

PRODUCT ADJACENCIES

Natural adjacencies to men's underwear including:

- **Expand target customer** incl a broader range of Women's products
- **Expand product range** within the innerwear category

**Customers want our product –
we just have to let them know it is available and get it in their hands**

Business Model

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Step One is built on an innovative product and customer engagement model with a strong ESG focus

1. DESIGN

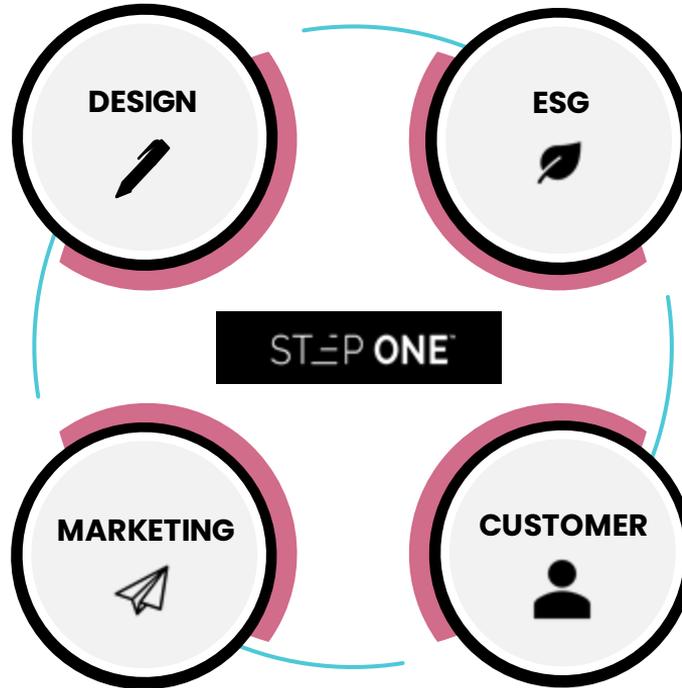
Functional Product Features

- UltraGlyde™ panels
- Elastic 3D pouch
- Organically grown Eco-Cert Bamboo

2. MARKETING

Strategic & Direct

- **In-house capability** producing video, content & marketing
- Skills managing **content localisation** or local production
- Intelligent management of **paid media, social media & influencer** channels



4. ESG FOCUS

Transparent production process

- **FSC certification** of supply chain
- **Organically grown** Bamboo from responsible sources
- Strict **ethical manufacturing** across supply chain
- **Minimise** carbon footprint

3. CUSTOMER 1st APPROACH

Strong Customer Conversion & Retention

- **30-Day First Pair Guarantee** which allows a full refund on a first purchase
- **Free shipping** available
- **12-month** manufacturing warranty
- **Rapid** customer service response

Sustainable and Ethical Supply chain

Our ESG credentials are baked into our entire product lifecycle, from inception to delivery
The Step One Brand is now certified by FSC¹



1. Certification of the Step One brand applies only to new product produced post certification in late 2022. Certification is subject to annual compliance audits.

**LOOKING
FORWARD**



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Looking forward

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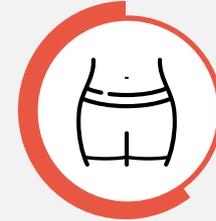
Step One will continue to prioritise profitability over growth



Profitable growth



Expanding the customer funnel



Expanding our range



Investing in capability and product innovation



Continuous improvement in customer experience



Expanding sales channels and marketplaces

Thank You! Q+A

Browse our product range on www.stepone.life while we are talking

4.7

13,278 reviews¹



PRODUCT REVIEW
.COM.AU

4.6

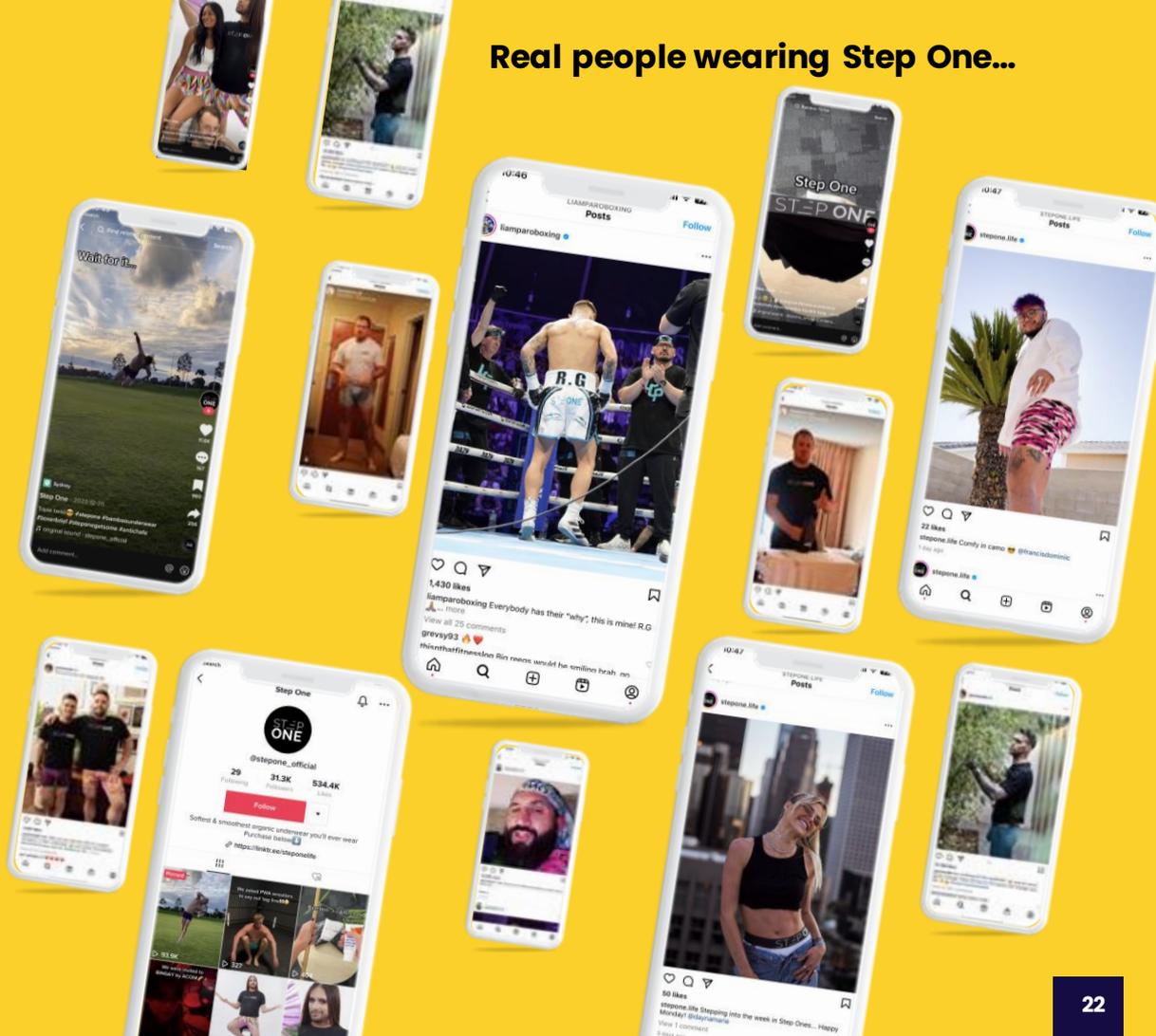
20,938 reviews¹



Trustpilot

1. Customer reviews taken from respective websites as at 17 February 2023.

Real people wearing Step One...



APPENDIX



STEP ONE™

Product Features

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Step One underwear is design focused – with UltraGlyde™ panels, comfort pouches, and comfortable organically grown Bamboo – it has revolutionised the underwear market for all genders

3D CROTCH PANEL

- Hidden **3D Elastic Pouch** keeps 'the boys' supported
- Less skin to leg contact reduces sweat and maintains comfort
- Elastic stretches to fit any man regardless of size

BAMBOO FABRIC

- **Wicks away sweat** and has excellent breathing qualities
- Organically grown bamboo plantations (eco-cert)
- Naturally irrigated & no pesticides used during growth

ULTRAGLYDE™ PANELS

- **Reduces friction, reduces chafing** and reduces the dreaded ride up
- Ensures maximum comfort as thighs glide

SOFT AND SUPPORTIVE

- Construction from single piece of fabric
- **Luxurious feel from** breathable fabric
- Soft and supportive waistband
- No visible panty line (VPL)

A Brief History of Step One

STEP ONE™

Founder-led business with highly scalable model & strong track record of growth



STEP ONE IS BORN

Idea, Product Dev & 1st Order



IT'S A SELL OUT

Video = 1M Views
Sell Out 5,000 pairs
Re-order 20,000 pairs



PRODUCTION GROWS

A 2nd manufacturing relationship established to accommodate customer demand



SCALE + COMPOSTABLE PACKAGING + ESG FOCUS

Move to 3PL (Outsourced Logistics)



HELLO UK!

UK market testing followed by full launch



HELLO US!

Following a testing phase Step One is set to launch in the US



DIVERSIFYING SUPPLY

Additional manufacturing partner in Vietnam



WOMEN'S LAUNCH

New product range for women based on existing female demand

AMAZON

Listed on Amazon in AU, UK and US

NEW PRODUCTS & DESIGN

Thermals launched & patterns introduced to range

NEW PRODUCTS

Launched sports range

2017

2018

2019

2020

2021

2022

Flexible Production Cycle

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A highly flexible production cycle which can be managed to meet demand

Production facilities in China and Vietnam:

- Maintain **flexibility** across production cycle
- **Mitigate risk** of disruption in one of the jurisdictions
- **Support continued growth** of the business

Delays in global export logistics are affecting shipping, offloading & transfer to warehouse, putting pressure on days to market for colour releases. FY23-24 are expected to see a return to previous shipping times.

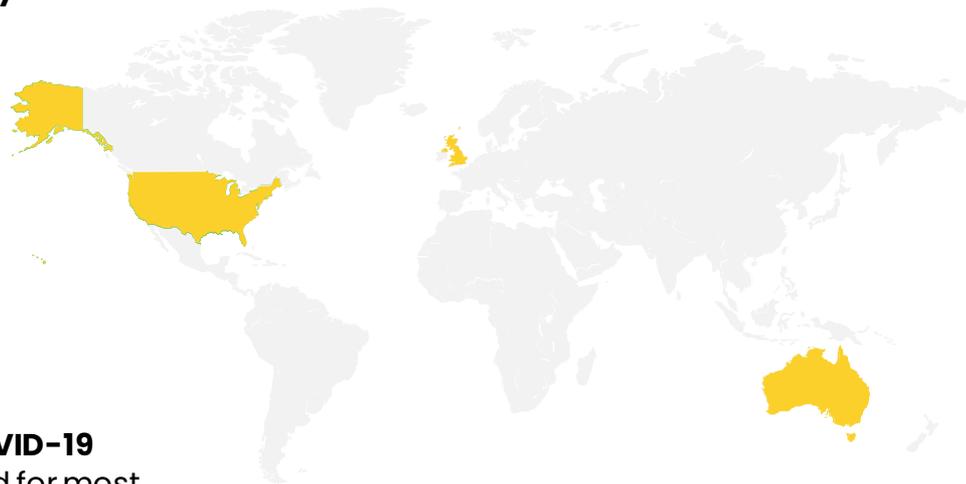


- **Flexible production cycle** that allows us to amend the order throughout the process right up to export

1. Worldwide air freight delivery timeline of 7-12 days normally available if required

Local Distribution

- **Product is warehoused in each country with 3PLs in Australia East Coast, UK East Coast & USA West Coast**
- **3PLs manage all inventory & logistics in each country**
 - Receive product from the port of entry
 - Receipt product into their warehousing systems
 - Secure storage & management
- **Targets next business day fulfillment**
 - Direct connection with Step One's selling system
 - Daily pick & pack (business day)
 - Management of returns & exchanges
- **Last mile reliant on local distribution services which experienced significant delays relating to COVID-19**
 - National postal services plus private services used for most deliveries including express options (Australia Post, Royal Mail, UPS & USPS)
 - Other express delivery options used as required



Proforma Income Statement

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\$'000	FY20		FY21		FY22		FY23
	1H20	2H20	1H21	2H21	1H22	2H22	1H23
Australia	9,304	11,943	23,359	17,309	25,601	20,995	24,113
UK	0	1,000	10,726	10,323	11,031	11,013	10,619
USA	0	0	0	0	1,444	2,103	1,161
Revenue	9,304	12,943	34,085	27,632	38,076	34,111	35,893
Cost of sales	(1,713)	(2,383)	(6,094)	(4,638)	(6,424)	(6,590)	(6,925)
Gross profit	7,591	10,560	27,991	22,994	31,652	27,521	28,968
Gross Margin %	81.6%	81.6%	82.1%	83.2%	83.1%	80.7%	80.7%
Advertising & marketing	(3,014)	(5,280)	(12,378)	(15,696)	(14,930)	(17,159)	(11,916)
Advertising as % of Revenue	32.4%	40.8%	36.3%	56.8%	39.2%	50.3%	33.2%
Distribution & fulfilment	(636)	(1,118)	(3,057)	(3,137)	(4,415)	(4,431)	(4,472)
Distribution as % of Revenue	6.8%	8.6%	9.0%	11.4%	11.6%	13.0%	12.5%
Merchant & transaction fees	(177)	(499)	(736)	(666)	(947)	(910)	(1,262)
Transaction fees as % of Revenue	1.9%	3.9%	2.2%	2.4%	2.5%	2.7%	3.5%
Contribution profit	3,764	3,663	11,820	3,495	11,360	5,021	11,318
Contribution as % of Revenue	40.5%	28.3%	34.7%	12.6%	29.8%	14.7%	31.5%
Employee & contractor related expenses	(671)	(884)	(888)	(1,007)	(1,399)	(1,628)	(1,999)
Share based payments	(180)	(180)	(180)	(180)	(180)	(34)	(165)
Other operating expenses	(1,236)	(1,223)	(1,573)	(1,776)	(1,950)	(1,411)	(1,682)
Proforma Overhead	(2,087)	(2,287)	(2,641)	(2,963)	(3,529)	(3,073)	(3,846)
Foreign Exchange	0	0	(74)	97	(394)	(367)	1
Other non-operating income	2	46	74	(28)	(3)		
Proforma EBITDA	1,679	1,422	9,179	601	7,434	1,581	7,473
EBITDA as % of Revenue	18.0%	11.0%	26.9%	2.2%	19.5%	4.6%	20.8%
Depreciation & amortisation & interest	(1)	0	0	(5)	(3)	26	100
Proforma PBT	1,678	1,422	9,179	596	7,431	1,607	7,573
Income tax expense	(446)	(378)	(3,063)	(198)	(2,462)	(1,249)	(2,298)
Proforma NPAT	1,232	1,044	6,116	398	4,969	358	5,275
Proforma expense adj	1,008	931	(1,456)	(5,171)	(9,963)	650	0
Proforma tax adjustments	(292)	(325)	(96)	91	1,178	(195)	0
Statutory NPAT / (NLAT)	1,948	1,650	4,564	(4,682)	(3,816)	813	5,275

COMMENTARY

- No proforma adjustments made in 1H23
- Proforma financial information has been prepared for comparative analysis
- The nature of the proforma adjustments are provided on the next page

Proforma Adjustments

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	FY20		FY21		FY22		FY23
	1H20	2H20	1H21	2H21	1H22	2H22	1H23
\$'000							
Statutory NPAT / (NLAT)	1,948	1,649	4,564	(4,683)	(3,816)	813	5,275
<i>Less Costs</i>							
- share based payments	0	133	2,967	4,900	6,076	0	0
- IPO costs	0	0	0	605	3,927	0	0
- legal fees	0	0	0	1,004	394	(650)	0
- other one-off costs	504	447	0	91	0	0	0
<i>Add Costs</i>							
- management & admin costs	(471)	(471)	(471)	(389)	0	0	0
- executive share-based payments	(180)	(180)	(180)	(180)	0	0	0
- public company costs	(860)	(860)	(860)	(860)	(434)	0	0
	940	718	6,020	488	6,147	613	5,275
Proforma Tax Adjustment	292	325	96	(90)	(1,178)	195	0
Proforma NPAT	1,232	1,044	6,116	398	4,969	358	5,275

COMMENTARY

- No proforma adjustments made in 1H23
- Proforma financial adjustment enable appropriate 'like-for-life' comparison
- Proforma adjustments represent a deviation from Accounting Standards

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