booktopia

An e-commerce leader

Investor Presentation
H1 FY23 – 31 Dec 2022

28 February 2023

Presentation

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Please contact Ben Ready (ben@rgcmm.com.au) to arrange an investor briefing session.

Booktopia at a Glance

Australia's largest online book retailer with 20-year history of success

- Market leading and category dominant position with more than 5 million customers and 1.7 million active customers.
- Largest Australian online book retailer by market share.
- More than 62 million group website sessions in CY22.
- Over 100,000 titles in stock with access to total stock list of >6 million titles.

A leading player in Australia's vibrant, growing book market

- Australian book market continued to grow in 2022, with overall sales for the year up 20% on 2021[1].
- 2023 YTD growth up 6% on the same period last year[1].
- Bricks and mortar stores grew market share (at expense of online) in 2022 as a natural consequence of the correction in consumer behaviour post covid.

Cultural commitment to delivering on our 'customer promise'

- In-depth understanding of customer online purchasing behaviour that is intrinsically embedded into our software and people.
- Proprietary pricing and stock algorithms keep stock obsolescence to a minimum while maximising product margins.

Strategic and operational focus on efficiency to drive earnings and service

- Secured new "Next Gen" Customer Fulfilment Centre (CFC) at South Strathfield to drive operational efficiency, lower costs and improve customer experience.
- Ongoing rationalisation of lease obligations including exit from Lidcombe.
- Major cost-correction exercise underway to drive future profitability.

1. Source: Nielsen BookData

Key Metrics – H1 FY23 (31 December 2022)

H1 FY23 Revenue

$110.1m ▼ 15.3%

(H1 FY22: $130.0m - at the peak of nationwide lockdowns due to COVID)

H1 FY23 EBITDA

$1.3m ▼ 68%

(H1 FY22: $4.1m) - Substantial work completed on right-sizing overheads in H1 FY23

H1 FY23 Distribution Wages Per Unit

$2.06 ▲ 24.3%

(H1 FY22: $1.65)

H1 FY23 Units Shipped

3.94m ▼ 16.7%

(H1 FY22: 4.73m - at the peak of nationwide lockdowns due to COVID))

H1 FY23 Average Order Value

$76.54 ▲ 3.3%

(H1 FY22: $74.13)

CY22 Average Customer Spend

$132.30 ▼ 0.1%

(CY21: $132.39)

First Half – Business and Performance Review

Revenue decline contributes to lower first half earnings

- Revenue down 15.3% to $110.0 million (H1 FY22: $130.0 million)
- 3.9 million units shipped (H1 FY22: 4.7 million)
- EBITDA down 68% primarily due to lower revenue ($19.9m) and gross profit ($6.6m) offset by savings in employment and legal costs ($3.3m) which produced an EBITDA of $1.3m (Underlying loss of $1.3m)

Operational and strategic focus shifts to sustainable profitability

- Operational environment returning to normal with management prioritising actions to improve profitability while balancing ongoing investment in people, technology and infrastructure to support future growth.
- Board transformation completed with new Chairman and two new Non-Executive Directors. New CEO appointment pending.
- New Customer Fulfilment Centre (CFC) secured to reduce operational costs, improve efficiencies and support future growth. Short term funding secured to fund the new CFC, with longer term funding being sought.
- Even with economic uncertainty, the Board and management remain optimistic about future prospects and will continue to prepare the business for growth.

Valuable wins drive confidence despite tough conditions

- The biggest Black Friday / Cyber Monday sale ever delivering +18% revenue on last year
- Winner of Western Sydney Awards for Business Excellence
- A record number of units shipped in 1 day – 64.6k units
- Partnered with leading author Scott Pape to deliver over 120,000 books to his loyal subscribers
- Over 100,000 signed copies delivered to our customers this Christmas season
- 24% growth in sales to business, government, education and wholesale sector (compared to PCP)

Responding to the Challenges of a Post-COVID World

Booktopia has faced a number of challenges in the post-COVID environment. In response, the company has taken strong action to support a return to growth and profitability.

Increased Costs →

"Right-size" the Business

As consumer habits changed in 2022, revenue became more volatile. The company has and will continue to implement a range of **cost rationalisation and margin optimisation** measures as announced in a business update on 23 January 2023. An overview of these can be found on slide 9.

Capacity Constraints →

Build our new Next Gen CFC

Work has begun to **consolidate the company's logistics operations** into a single, modern, purpose-built facility at South Strathfield ("Next Gen CFC"). The rationalisation of leasing obligations and associated costs are expected to realise annualised savings of $2-3 million.

Increased Competition →

Focus on competitive advantage

The competitive environment has broadened to include many omni-channel retailers who upgraded their online offering during COVID. The company will continue to focus on its strengths including a **broad "in-stock" inventory** offering, **Australian-based customer contact centre**, value-add offerings such **signed copies, online content** and **fast and flexible delivery**.

Strategic Expansion →

Back to Basics

While the company will continue to offer book-related services, (such as Booktopia Publisher Services), the focus for the next 12 months will be on returning the core business of selling books to **sustainable levels of profitability**.

Responding to the Challenges of a Post-COVID World

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Increased Advertising Costs →

Refocus Advertising Strategy

Increased competition and a push to drive brand awareness has driven up the price of paid advertising. As part of the restructure, the company has rationalised and redirected advertising spend to focus on **proven digital marketing channels**. Loyalty and customer lifetime value remain a priority for the company.

Board and Management Changes →

Return to Stability

With the appointment of a new Chair, two new Non-executive Directors, and the search for a new CEO nearly complete, the business is well placed to explore further **medium to long-term funding opportunities** and to manage the business transition.

Evolving Consumer Expectations →

Fulfilling our Customer Promise

Rebuilding trust with customers remains a priority after a challenging half with meeting customer delivery targets. The investment in the Next Gen CFC will deliver not only operational cost savings but also improve the range and depth of inventory to ensure fast and flexible delivery and **improve the overall customer experience**.

Action Will Deliver Benefits in FY24 and Beyond

In response to the first half challenges the company has implemented a number of initiatives that will deliver approximately $12-15 million of annualised improvements in FY24 and beyond.

1	**Margin Optimisation** – where appropriate the company has adjusted pricing to reflect increasing costs and improve overall gross margins. This optimisation will realise approximately $2-3 million in annual earnings improvement (implemented December 2022 and ongoing).
2	**Postage Recovery** – the company has changed how it recovers third-party delivery costs, resulting in a $4-5 million annualised earnings improvement (implemented December 2022).
3	**Advertising Optimisation** – the company has optimised its advertising program to focus more on high-conversion channels. This is expected to deliver $1-2 million per year in cost savings (ongoing).
4	**Welbeck Sale** – the company has exited its investment in Welbeck ANZ, resulting in a cash payment of $1.5 million. There are no further costs or obligations associated with the investment (December 2022).
5	**Property Rationalisation** – the company is reducing its property/lease obligations requirements, resulting in $2-3m of annualised cost savings. Includes departure from Lidcombe and transition to the Next Gen Customer Fulfilment Centre (commencing H2 FY23).
6	**Restructuring** – the company has undertaken an organisational restructure to reduce costs, including 30 to 40 redundancies resulting in $4-5m in annualised cost savings (completed H2 FY23).

Investing for the Future – Next Gen Customer Fulfilment Centre

Booktopia's Next Gen CFC will underpin the company's future distribution capacity and operational efficiency. It will allow the company to increase volume at lower costs.

Large, well-located site, delivering immediate benefits

- 20,000 sqm greenfield site custom-designed to maximise the efficient flow of product with space set aside for future expansion.
- $12m investment will allow for growth to at least $360m in revenue.
- Operational in time for Christmas 2023, it will deliver significant improvements in labour costs once fully commissioned.

Proven, flexible robotic technology to reduce labour costs

- Partnering with Locus Robotics, a market-leading robotics solution which provide a flexible robotics fleet allowing the business to flex up or down with changing business requirements.
- Automation, design and latest technology innovation combine to reduce reliance on human labour which protects the business from inflationary and health-driven cost pressures.
- Improves the efficiency of workers and provides better quality jobs by reducing manual repetitive tasks and reducing walk-time.

Improved Customer Experience / Favourable ESG outcomes

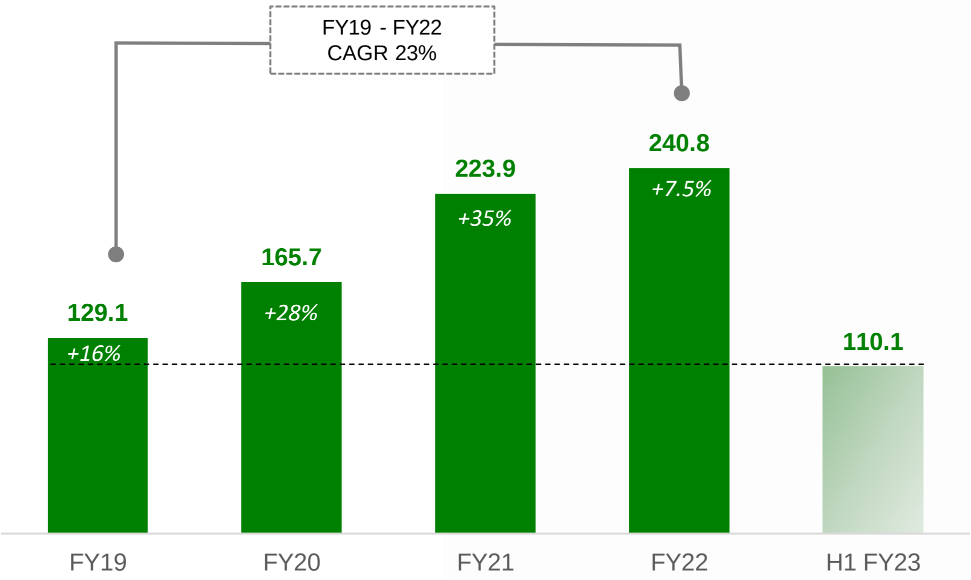
- The new site will improve our ability to consistently meet our customer delivery expectations and to provide an array of delivery options with a strong quality outcome (arrives in good condition).
- Uses efficient lighting design. Also exploring solar options to offset all power usage.
- Focus on recyclable packing, minimising waste and exploring drop ship solutions to reduce packaging, movements and carbon emissions.

SECTION 3

First Half Financials

First Half KPI's

Revenue ($m)



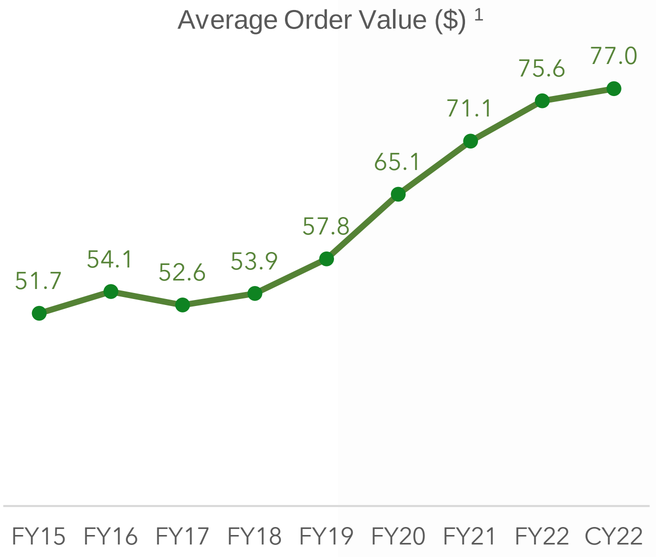
Key Performance Indicators

	FY19	FY20	FY21	FY22	H1 FY23
Key Operating Metrics					
Average Order Value ($ per order) (1)	$57.81	$65.08	$71.07	$75.59	$76.98 *
Average Selling Price ($ per unit shipped) (2)	$24.73	$25.80	$27.39	$28.27	$27.60 *
Average Customer Spend ($ per customer per year) (3)	$98.54	$111.43	$126.85	$134.94	$132.30 *
Units shipped (000s)	5,370	6,451	8,173	8,490	3,940
Key Financial Metrics					
Revenue growth on PCP	15.8%	28.4%	35.0%	7.5%	(15.3%)
Gross profit growth (%) on PCP	11.1%	25.9%	39.2%	6.3%	(18.5%)
Gross profit ($ per unit shipped) (4)	$6.42	$6.82	$7.48	$7.65	$7.57 *
DC wages per unit shipped (5)	$1.26	$1.42	$1.42	$1.65	$2.06
Marketing expenses ($ per unit shipped) (6)	$1.69	$1.53	$1.25	$1.20	$1.54
Underlying EBITDA margin (EBITDA / revenue %)	2.8%	3.6%	6.1%	2.6%	(1.2%)

* Average Order Value, Average Selling Price, Average Customer Spend and Gross Profit per Unit for H1 FY23 are calculated for the last twelve months / calendar year in order to present these numbers on an annualised basis, incorporating the main academic season.
1. Average Order Value is based on sales including GST but excluding any freight charged to customers, divided by the total number of orders in each financial year from Booktopia, Angus & Robertson, eBay and TradeMe sales channels.
2. Average Selling Price means average selling price per unit, calculated as revenue for the period including GST but excluding any freight charged to customers divided by the number of units shipped for that period.
3. Average Customer Spend inc GST but excludes freight income and orders places through marketplaces.
4. Gross profit per unit means gross profit divided by the number of units shipped.
5. Distribution Centre wages per unit is the wages and contractor expense for the Distribution Centre divided by the total number of units shipped.
6. Marketing expenses per unit means marketing expenses divided by the number of units shipped.

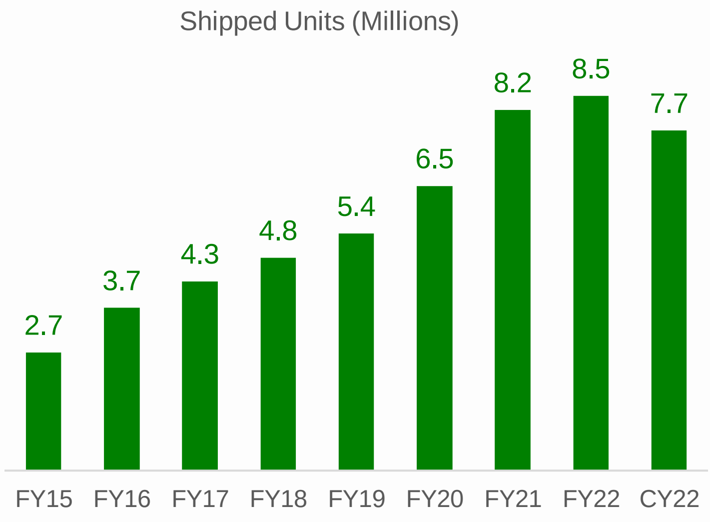
Key Revenue Drivers

Average Order Value of $76.98



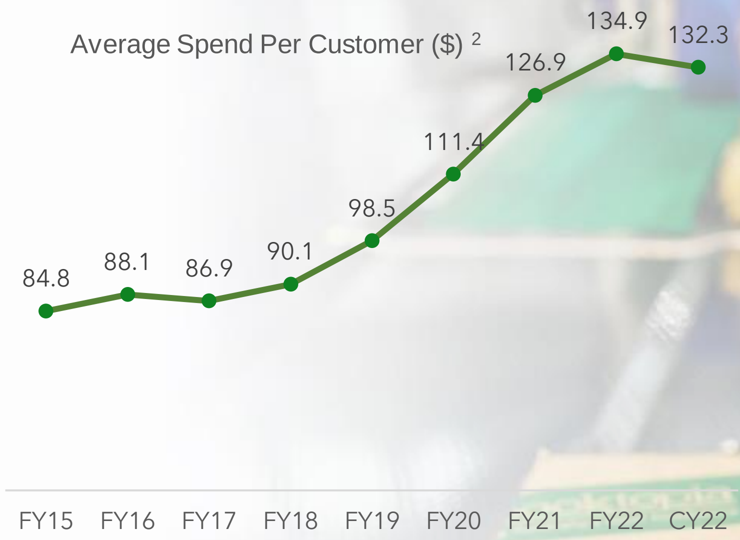
CY22 presented for 12 month comparison. Academic season FY22 expected to favourably impact this metric.

Shipped Units 7.7m in CY22 or 3.9m for H1 FY23



Units shipped of 7.7m for last 12 months down from 8.5m in FY22. H1 FY23 was 3.9m units down 17% on 4.7m units in H1 FY22.

Average Spend Per Customer of $132.30 for CY22

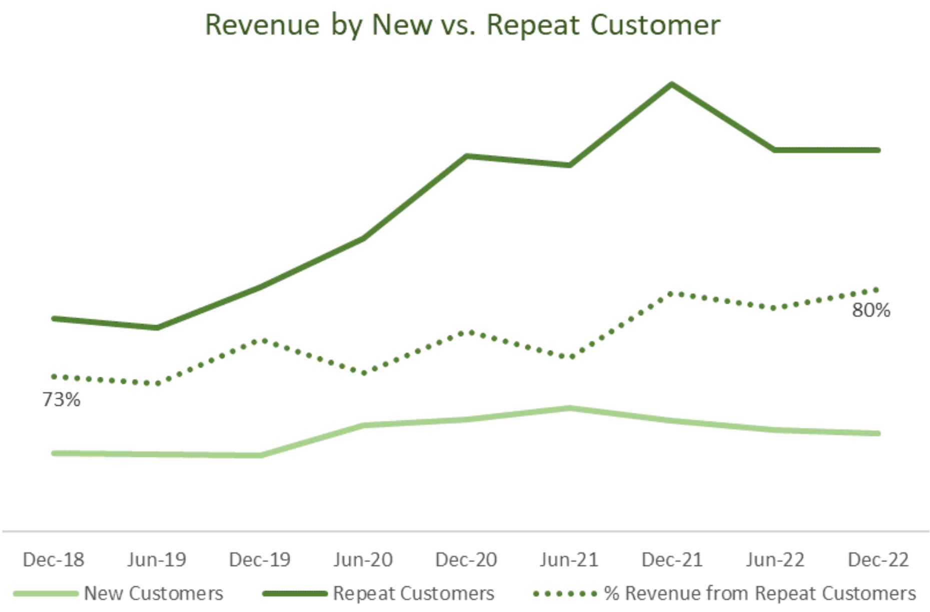


CY22 presented for 12-month comparison. Academic season FY22 expected to favourably impact this metric.

1. Based on sales including GST and excluding freight income divided by the total number of orders in each financial year from Booktopia, Angus & Robertson, eBay, TradeMe and Amazon sales channels.
2. Based on sales including GST and excluding freight income divided by the total number of customers in each financial year from Booktopia, Angus & Robertson, eBay, TradeMe and Amazon sales channels.

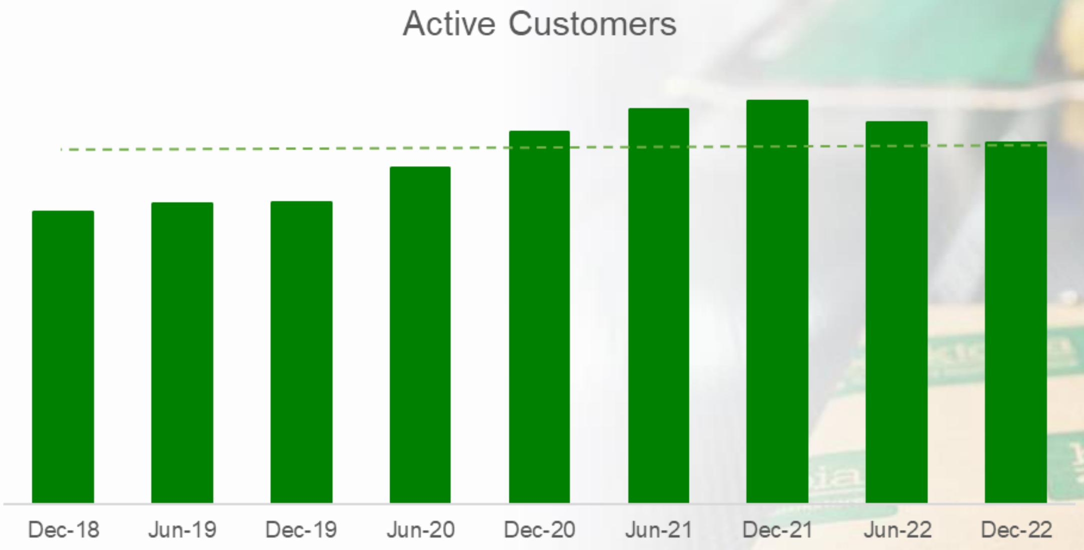
Customer Mix and Spend Cycles

80% of revenue is now from repeat customers



Revenue is based on 6-month increments

Active customers are down 5% compared to 30 June 2022 but up 20% on pre-covid December 2019



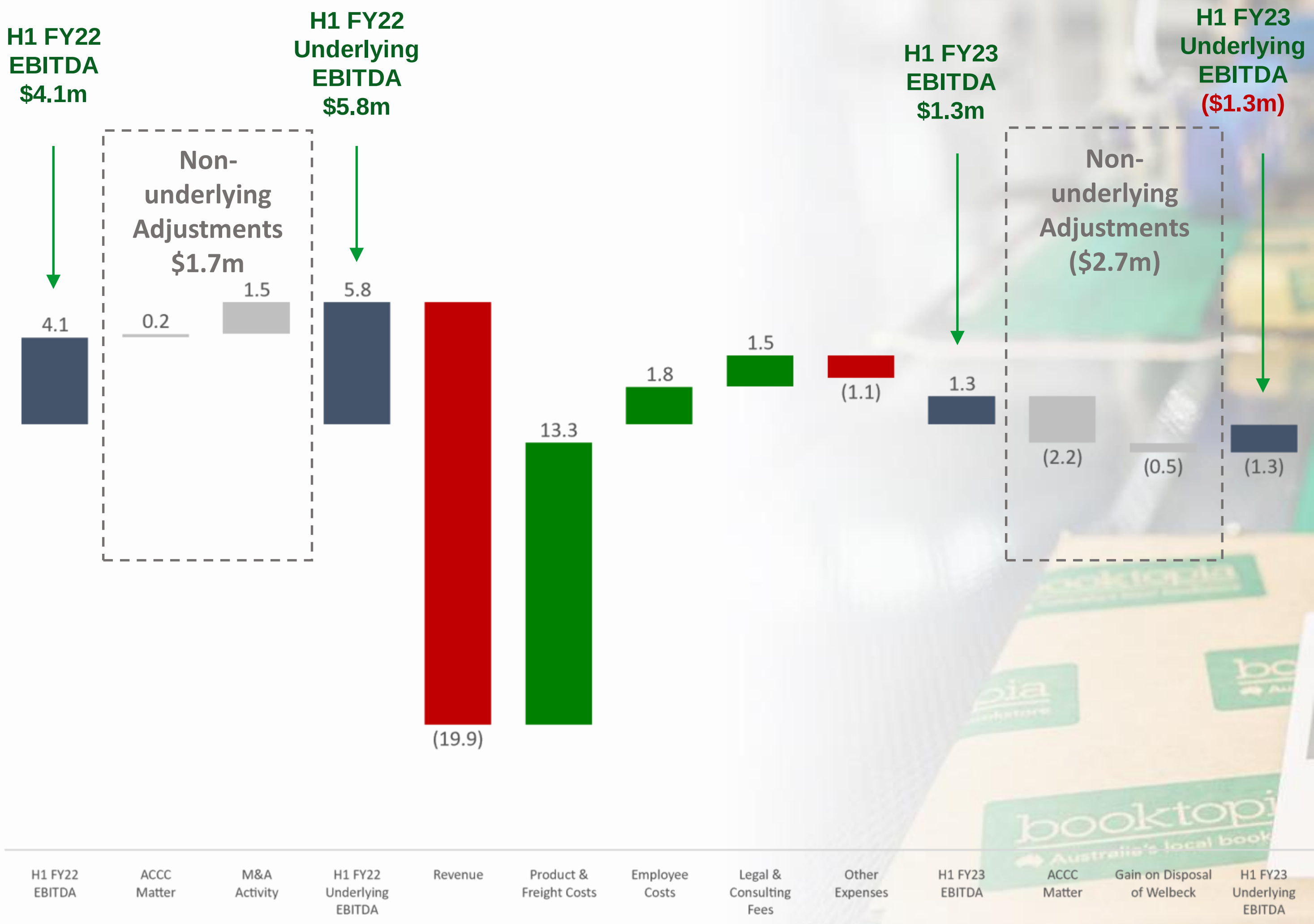
EBITDA comparison to Prior Period

The company incurred several one-off costs in the H1 FY22 accounts which had a combined negative impact of $1.7m on EBITDA. In the H1 FY23 accounts, there were one-off benefits which had a combined positive impact of $2.7m.

- **ACCC provision for penalty**
  In the year ended 30 June 2022, the company recognised a provision for the expected penalty relating to the ACCC matter. At 31 December 2022, this provision was remeasured to reflect current market conditions impacting the discount rate and the phasing of cash flows.

- **M&A related costs**
  Booktopia explored several M&A opportunities in H1 FY22 which resulted in significant legal and consultant fees. These costs were referred to in the half-year financial report.

- **Gain on disposal of Welbeck**
  On 2 December 2022, the company sold its 25% stake in Welbeck Publishing Pty Ltd (WPGANZ). The sale gave rise to a gain on disposal of $0.5m which was recognised in the H1 FY23 results.



Summary Profit & Loss

Statutory P&L ($m)	H1 FY21	H1 FY22	H1 FY23
Shipped Units (m)	*4.2*	*4.7*	*3.9*
Revenue	**112.6**	**130.0**	**110.1**
Product and freight costs	(81.9)	(94.3)	(81.0)
Gross profit	**30.7**	**35.7**	**29.1**
Employee expenses	(14.5)	(20.1)	(18.4)
Merchant expenses	(1.6)	(1.7)	(1.5)
Marketing expenses	(4.1)	(4.6)	(6.1)
IPO costs	(4.1)	-	-
FV of redeemable preference shares	(18.6)	-	-
Other income & expenses	(2.3)	(5.2)	(1.9)
Operating expenses	(45.3)	(31.6)	(27.7)
EBITDA	**(14.7)**	**4.1**	**1.3**
Amortisation, depreciation, & impairment expense	(2.0)	(3.4)	(7.3)
EBIT	**(16.6)**	**0.7**	**(6.0)**
Net interest expense	(3.6)	(1.1)	(0.7)
Profit / (loss) before tax	**(20.2)**	**(0.4)**	**(6.7)**
Income tax benefit / (expense)	0.4	(0.2)	2.8
Net profit / (loss) after tax	**(19.8)**	**(0.6)**	**(3.9)**

Revenue was down 15% which is consistent with most pure-play online businesses who are comparing against prior year periods impacted by lockdowns. Q2 performed better than Q1 being 11% down on PCP compared with 19% in Q1.

Employee expenses were down 9% as the business recovers from increased costs associated with COVID. A restructure in June 2022 which resulted in a small number of redundancies, combined with natural attrition and a deliberate strategy to moderate the long term investment in staff has resulted in a decrease in office head count of 11% compared to June 2022. Further savings are expected in the year end results following a major restructure announced on 23rd January 2023.

Marketing expenses were up 32% off the back of prolonged periods in H1 FY22 where paid search was significantly moderated to curtail demand caused by last year's lockdown. On a per unit basis it remains on par with FY20 and below levels seen in pre-covid.

Other expenses were down $3.3m or 64% as one-off expenses related to M&A costs and other legal expenses were not repeated in this half.

Amortisation, depreciation & impairment expenses driven up by the acceleration of depreciation on equipment that will not be moved to the new CFC, along with the deprecation on new assets that were not in the PCP.

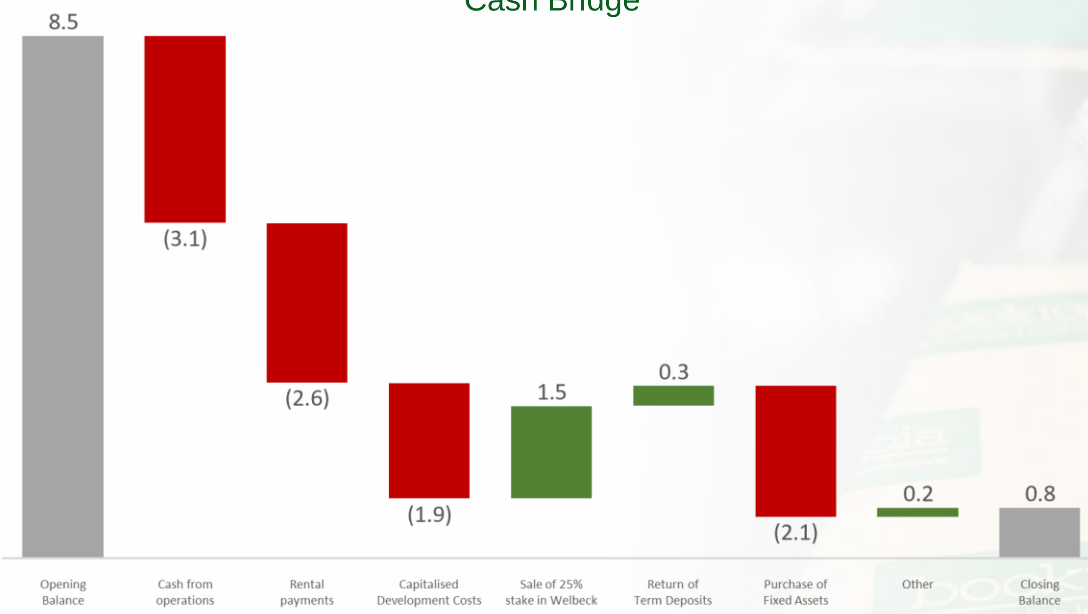
Summary Balance Sheet

Balance sheet ($m)	FY22	H1 FY23
Trade and other receivables	1.7	2.4
Inventory	17.3	20.6
Trade and other payables	(28.7)	(29.2)
Prepaid customer orders	(9.7)	(11.3)
Working capital	**(19.4)**	**(17.6)**
Right of use assets	22.7	21.6
Lease incentive receivables	0.6	0.6
Lease liabilities	(31.0)	(29.0)
Net lease balances	**(7.6)**	**(6.8)**
Cash and equivalents	8.5	0.8
Other current assets	1.3	1.1
Welbeck investment	0.9	-
Plant and equipment	22.4	19.5
IT Systems	9.1	9.6
Other NC assets	8.2	10.6
Provisions	(8.8)	(6.6)
NET ASSETS	**14.6**	**10.7**

Inventories held at 31 December comprised:

- $16.6m of merchandise held for sale
- $3.3m of stock in transit
- $0.7m of packaging material and other spare parts

Cash Bridge



SECTION 3

Trading Update and Outlook

Trading Update & Business Outlook

A refocus on improving earnings whilst balancing the need to invest in the future

- Operations have largely returned to a more normal environment following the end of COVID restrictions however, increased competition and changes to consumer behaviours continue to create challenges for the business.
- Transitioning to a new Customer Fulfilment Centre which is expected to improve operational efficiencies and enable further growth of the business.
- Currently in the midst of the academic season, which has the potential to provide opportunities for improved sales with the return of international students.
- Maintaining a sharp eye on costs is imperative whilst uncertainty remains in the economy and community.
- Our goal remains to be the leading online retailer for the Australian book industry underpinned by an efficient, customer-led retail offering.
- Revenue for January 2023 was down 10% on the pcp, a period which was significantly impacted with strong ecommerce demand during the Omicron outbreak.

Booktopia Group Limited

Please contact Ben Ready (ben@rgcmm.com.au) to arrange an investor briefing session.

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