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Australia's local bookstore

ASX ANNOUNCEMENT
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BOOKTOPIA GROUP LIMITED (ASX: BKG) OPEN BRIEFING TRANSCRIPT

The transcript of the Open Briefing presentation on Booktopia's FY23 financial results held yesterday is attached.

Authorised for release by Alistair Clarkson, Booktopia's Company Secretary.

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Event Transcript

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Start of Transcript

David Nenke: Good afternoon and welcome to our FY23 financial results presentation. My name is David Nenke and I'm the CEO of Booktopia. I respectfully acknowledge that I'm joining today from the lands of the Eora nation. On behalf of Booktopia, I would like to acknowledge and pay my respects to the custodians of Country throughout Australia and recognise their continued connection to land, waters and cultures. We pay respects to their Elders past, present and emerging.

Before we begin the call, I'd like to remind you that the statements we make on today's call are covered by the disclaimer contained in our public documents. During this call, we will make forward-looking statements with predictions, projections and other statements about future events. These statements are based upon current expectations and assumptions that are subject to risks and uncertainties, including those contained in our public filings with the ASX. The Company disclaims any obligation to update any forward-looking statements that may be made or discussed during this call.

Finally, as a reminder, everyone on the call will be muted for the duration of the call, but following our presentation, we'll be providing ample time for any questions you may have.

Page 2. Joining me on the call today are the Booktopia Group Chairman, Peter George, and the Group's Chief Financial Officer, Fiona Levens.

On page 3, Our Mission. FY23 has been a year of transition for both Booktopia but also for the Australian online retail industry. Despite the challenges, we have continued to channel our focus on the customer, considering their experience with us and how we create a journey that delivers to, or beyond, their expectations. We have a clear strategy and a unique set of advantages that enable us to deliver on our mission of providing Australians with the best book-buying experience. The combination of our single product focus, our data, capability and heritage both differentiate and define us.

Page 4, the FY23 Metrics. The results for the financial year '23 were not what we wanted against the backdrop of consumers returning to pre-COVID shopping behaviours, particularly noting the rise in customers returning to shop at physical stores and the economic climate that has led to cost-of-living pressures for consumers. The results for the year have fallen short, but it should also be noted that this is the first full financial year since lockdowns were in force when the Company was well positioned to capitalise on the consumer demand. As such this has been the first year to ascertain what the new normal looks like for us. We remain significantly up on our pre-COVID performance.

With that in mind, our FY23 revenue of \$197.6 million is 19.2% higher than the FY20 which was \$165.7 million, while the average customer spend is 20% higher than the same period. Fiona will talk about the key financial results in more detail, but I wanted to highlight a few of the key FY23 figures.

As reported in the FY22 annual report, the Company committed to a move to a new customer fulfilment centre. We will call it CFC from here. This transition was a key strategic priority during FY23. I am pleased to report that we are now fully transitioned to the new facility and are operational. I start with this apart from wanting to call out its completion but also as it has impacted much of what we did in FY23 and also underpins our FY24 strategy.

On a revenue basis, FY23 was down 17.9% on FY22. We will talk more about the underlying causes, but I did want to highlight the five-year CAGR of 12.1%. This is important as we try to look at the overall trends of the business. While much has happened in this time, the five-year CAGR helps to normalise where we are.

The CFC wages per unit are up 37.4% year on year. Impacting this number is not only the inefficiency of our old CFC due to capacity issues but also the transition, running multiple CFC locations. Our average order value has increased 4.9% year on year and 8% over the last five years. Our average customer spend over the last five years has also increased 8.3%.

Page 5. Diving a little deeper into the FY23 performance, the revenue performance was down 18%. Firstly, the FY22 number does contain some of the upsides in revenue we experienced through COVID lockdowns. In FY23 we also reduced our inventory levels from $17.3 million on 30 June '22 to $13.4 million on 30 June of '23. This was [in result] for us preparing for the CFC move. This, in conjunction with difficult trading conditions, impacted both revenue and earnings for FY23.

As we announced earlier this year, the Group implemented a number of cost rationalisation and margin optimisation measures to help manage these economic headwinds with a reset of our cost base. These initiatives helped improve the gross profit unit economics from $7.65 in FY22 to $7.85 in FY23. We have forecast these initiatives will contribute to an improvement in earnings in FY24 by at least $12 million.

Once again I want to highlight that we have fully transitioned to the new CFC and are operational. With the working capital injection, we are well positioned to optimise the important Christmas season.

Page 6. [With] the FY23 revenue mix, we have four distinct channels. The Consumer Trade segment, defined as traditionally everyday Australian customers who come to our booktopia.com.au and angusrobertson.com.au websites. This segment makes up 60% of our sales revenue. The Consumer Academic who frequent the same two websites but are purchasing academic books. They may be across all levels and grades from primary school to university textbooks. They represent 21% of our 2023 sales revenue. The sales revenue for both of these segments were down in FY23 on FY22. The third segment that comprises 16% of our sales revenue is the Business, Government and Education sector. Last year this represented 11% of our sales revenue. The FY23 growth on FY22 is 13% year on year.

Page 7. Before I hand over to Fiona to take you through more of the financial details, I want to once again highlight how we're adapting to the ever changing and challenging economic climate. We have and will continue to implement cost rationalisation and margin improvement measures. We have consolidated our logistics operation into one single, modern facility which will reduce costs and improve efficiencies. We have raised capital to improve our financial position as we execute for Christmas 2023. With the appointment of the four Non-Executive Directors including Chair, we are focused on execution and delivering for customers.

I will now hand you over to our Chief Financial Officer, Fiona Levens.

Fiona Levens: Thanks, David.

As David mentioned, no business enjoys seeing results that are down year on year, but I believe it is our response to these challenges that will determine the course of our future growth.

Talking to slide 9 now, establishing our new customer fulfilment centre has been a core focus for us in FY23, forming part of our strategy to drive operational efficiencies and reduce direct labour costs. Unfortunately a consequence of this is the upfront investment required in the capital allocation of resources to build this new facility and create all of the new systems and processes to deliver a successful long-term operation.

With that in mind, we have utilised significant additional labour to prepare for and move our inventory to the new CFC. This has contributed to the increase of $0.62 per unit in the direct labour costs that we saw in FY23. In addition, simultaneously operating out of multiple fulfilment centres, coupled with space and layout constraints at the old CFC, also added to the increase in direct labour costs in FY23. With an investment of $12 million in the new CFC, we are expecting productivity to improve and labour costs to substantially reduce to an average of $1.06 by half 2 of FY24.

But despite revenue being down 18% compared to the prior year, there were a number of positive indicators. Gross profit per unit was up $0.20 or 2.6%. This was off the back of the margin optimisation strategy that was implemented in February of this year. We also saw a 4.8% increase in the average order value from $75.6 to $79.3 while the average annual customer spend decreased slightly by 0.6% or just $0.81. However, given the current household budget pressures, we are encouraged that this has only been a small decline. Our future marketing activity will also place a greater focus on a broader customer acquisition strategy and bolster retention plans to support our engagement with existing customers.

The revenue decline was largely driven by a reduction in volumes which, to an extent, was expected when comparing against a prior period that saw elevated demand during COVID lockdowns. We reported at half 1 that revenue was down 15% compared to the prior comparative period. While there was hope that we might have done better in half 2, results were disappointing with revenue being 21% down on the prior period. This was partially due to continued soft trading conditions as well as the sell-down of inventory in preparation for the transition to the new CFC and the impact that that transition had on our customer shipping promise.

For a large part of half 2, we displayed a customer shipping promise that was not at our optimal delivery timeframe of one to two days. This impacts conversion rates and hence sales and revenue. The completion of the new CFC will see a return to this optimal shipping promise, which in turn will improve conversion rates and therefore sales.

While overall revenue from our consumer business was down 24% compared to the prior period, revenue driven by our national sales team was up 12%. This represented 19% of total revenue in FY23. This team continues to focus on primary and high school engagement, increasing the number of schools purchasing from Booktopia by 25% to 7,100 schools in FY23.

Revenue remains 53% above pre-COVID levels in 2019, which represents a healthy four-year CAGR of 12%. This provides us with a great platform to build as we seek to take advantage of the boom in reading and book sales which followed from COVID lockdowns and develop a steady trajectory moving forward into FY24 and beyond.

We'll skip over slide 10 and move on to slide 11. Despite favourable improvements above the gross profit line, the unit economics were largely impacted by the increase in advertising spend and the higher direct labour costs in the CFC.

The increase in advertising spend, on a per unit and on an overall basis, is reflective of the market conditions that faced all ecommerce businesses as we emerged from COVID. Competition has intensified post-COVID with many omnichannel players ramping up their online offerings. In addition, physical retail stores saw a significant resurgence. With more players in the market, competition intensified, platforms have become more saturated and the demand for and pricing of advertising has surged, putting a squeeze on the optimal ROI.

We found ourselves, like many others, in a situation which requires a delicate balance between allocating larger portions of our budget to paid advertising to reach our online customer while simultaneously striving to refine our advertising strategy to identify the most effective channels, audience segments and ad formats. This level of spend on a per unit basis is projected to moderate in FY24 to pre-COVID levels.

We have combined direct labour costs and merchant fees in the other variable costs line that you can see on the slide. The increase of $0.55 per unit or 26% is entirely attributable to the increase in the direct labour costs associated with the

CFC. As noted earlier, this increase stems from the operation of multiple CFC sites and the preparation and transition to a new CFC.

As a result, our unit net margin for FY23 decreased by 20% or $0.87 per unit. We do, though, expect to see a significant turnaround in this result in FY24 as we realise the labour savings stemming from the operation of the new facility.

Moving on to slide 12, I've largely addressed most lines in the P&L. However, there are a couple that warrant further explanation.

Employee expenses have reduced by 9% or $3.5 million in FY23. This is despite direct labour costs being 7% or $1.1 million higher than last year. Employee expenses associated with office staff have in fact reduced by $4.7 million or 20% compared to the prior year. This is because we've annualised the impact of the June 22 redundancies and absorbed the savings that were captured as part of the Company restructure that we actioned in February of this year.

Other income and expenses have reduced by $8.3 million, noting that $2.7 million of this relates to one-off benefits that have resulted from the revaluation of the liability associated with the ACCC matter and the sale of the Welbeck investment. The remaining $5.5 million reduction in costs is associated with abnormal legal and consulting fees that were incurred in the prior period FY22.

We have reported a statutory EBITDA loss of $3 million and an underlying EBITDA loss of $4.6 million. The movement of $10.8 million, compared to last year's underlying EBITDA of $6.2 million, can largely be attributed to the decline in gross profit off the back of reduced revenue.

If I can now just take you to slide 13, we strategically and gradually reduced inventory during the year as we edged closer to the date of the move from Lidcombe to the new facility in Strathfield South. We ended the year on inventory of just over $13 million which was $4 million down from our FY22 closing balance. Inventory will gradually start to build over the coming months as the new CFC ramps up operations and we prepare for the intake of Christmas stock.

Our customer advance payments have increased by $2.5 million as we have faced temporary delays in shipping out product while in the transition phase to our new CFC.

The cash balance was depleted during the year as funds were reinvested in our new facility and associated systems.

Property, plant and equipment decreased by $5 million despite adding $9.1 million of new assets to the ledger. This was mainly due to the acceleration of depreciation on assets that were not deemed suitable for the new CFC or had reached end of life.

Finally, we added borrowings of $12 million to our balance sheet, consisting of a $7 million trade finance facility and a $5 million unsecured loan from AFSG, which has subsequently been reduced to $3.4 million following a debt-to-equity conversion approved at the EGM on 16 August.

Our negative net asset balance of $14.5 million was partly caused by the derecognition of a $10.5 million Deferred Tax Asset stemming from our accumulated tax losses. In view of the past two years of tax losses, we considered this prudent, but they remain available for us to use. Once the business returns to generating consistent positive net profit, this asset will be reinstated on our balance sheet.

To summarise before I hand back to David, FY23 delivered unprecedented challenges which presented considerable financial implications. However, we are now confident that, despite the short-term adverse impacts, we are now in a much stronger position to capitalise on the opportunities in the market over the longer term. We look forward to delivering profitable and sustainable growth in the years to come. Handing back to you now, David.

David Nenke: Thank you.

To give a trading update and outlook, page 15. To provide some more context around the impacts of the cost saving initiatives, I would like to highlight a couple of key ones for FY24. The CFC labour costs will decrease from $2.27 per shipped unit down to $1.20 in FY24. This $1.20 is for the full financial year.

The advertising and marketing costs also provide opportunities for optimisation. We increased our unit spend in FY23 and we are now focused on improving our efficiency in FY24. The intent is to deliver higher levels of customer engagement, satisfaction and increase levels of website traffic, connecting the Booktopia brand to a broader audience than it has before. This year we will better utilise our owned and earned marketing as well as make improvements in our spend efficiencies in paid. We will also see the financial year impact of the office employment cost reductions with the total annual spend going from $23.8 million in FY22 to $17.9 million in FY24.

Page 16, the EBITDA outlook. Finally, let's turn our attention to the year ahead of us. We believe we have all the building blocks in place to return the business to both profitability and growth. We have stability of senior leadership. The cost base has been rightsized to support where we are today. The new CFC is operational which will reduce costs as well as support our growth aspirations. We forecast an underlying EBITDA of $13.5 million in FY24 off the back of volume growth, cost reduction initiatives as well as the CFC improved costs and efficiencies.

In summary, the year ahead is about focusing on the basics, the website, ensuring we have the right inventory, providing customers personalisation to make their shopping experience easier and offering unique selection for the Australian and New Zealand readers. Delivering on these basics is imperative to deliver on our mission of providing the best book-buying experience.

I will now turn over for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. Once again, that is star one to register for a question. We'll now pause a moment to allow for any questions to register.

Thank you. There are no questions at this time. I'll now hand the conference back to Mr Nenke for closing remarks.

David Nenke: Thank you. I'd like to thank you all for joining us and your interest in Booktopia. Thank you.

End of Transcript