8 October 2019

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

AGM address and trading update

- **FY20 earnings guidance remains unchanged**
- **Gross profit margin continues to strengthen to above 36%**
- **Comparable store sales growth (year-to-date) of 3.1%, reflects the cycling of unusual trading conditions in Q1 FY19**
- **Celebrating our 40th year with a new refreshed visual identity**
- **Second shopping centre store opens at Westfield Doncaster**

Attached is a copy of the Chairman's and CEO & Managing Director's address to shareholders to be delivered at the Company's 2019 AGM today.

In the respect of the FY20 outlook, Matt Spencer, Baby Bunting's CEO & Managing Director said:

"We have had a solid start to the year and the business continues to be on track to deliver our FY20 guidance.

"Comparable store sales growth of 3.1% year-to-date reflects the cycling of the unusual trading conditions in Q1 FY19 as a result of the closure of Babies R Us and our clearance activity of some high end cots and prams in September 2018. Online sales year-to-date were affected by technical issues associated with the transition to our new web platform. However, we expect to see online sales growth momentum continue to build. Our guidance assumes comparable store sales growth to be mid-single digits for the year.

"Q1 FY20 gross profit margin is 36.6% year-to-date, up 270 basis points on the prior period. This is outperforming our expectations and is a reflection on the growth in our private label and exclusive products range and less clearance activities relative to the prior period. We expect this level of performance to continue through the year.

"Baby Bunting has launched an exciting new brand, a major milestone in Baby Bunting's 40 year history. The new Westfield Doncaster store (opened on the weekend) is the first to have the new branding. In addition to Doncaster, we will be opening a further

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two stores in the first half at Wetherill Park and Casula in Sydney and we expect to open a further two stores in the second half.

"The outlook for FY20 remains unchanged from that announced on 16 August 2019. Pro forma NPAT is expected to be in the range of $20.0 million to $22.0 million. Pro forma EBITDA (as measured under the old lease accounting standards), is expected to be in the range of $34.0 million to $37.0 million."

The outlook is provided subject to the important notice regarding forward looking statements in the AGM Presentation released to ASX at the same time as this announcement.

Further details are contained in the attached address.

BABY BUNTING GROUP LIMITED
2019 ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS (IAN CORNELL)

The 2019 financial year

Good morning ladies and gentlemen.

In July 1979, Gail and Arnold Nadelman opened the first Baby Bunting store in a small shop in suburban Melbourne. It is a privilege to be addressing shareholders today in what is Baby Bunting's 40th year and its 4th year as an ASX-listed company.

Over those 40 years there have been a number of people who have made significant contributions to the growth and success of Baby Bunting. Clearly, the Nadelman family played a very big role in founding and establishing the business. In 2008, additional capital was introduced to the Company. That was when Barry Saunders joined the Company and lead it through a critical period culminating in Baby Bunting's IPO and ASX listing in 2015. I acknowledge Barry's leadership and efforts during that important period. Also, during that time, Baby Bunting benefitted greatly by the involvement of Tom Cowan and TDM Growth Partners. Again, I would like to acknowledge their valuable contributions at an important stage in the Company's development.

Today, we are working very hard to ensure that Baby Bunting continues to grow and develop so as to continue to meet the needs of current and future generations of Australian parents. As part of that work, we have stepped back and taken a look at our brand and what Baby Bunting means to our customers. As a result, Baby Bunting is launching a fresh new look and brand which we believe better reflects who we are and better connects with our customers today.

We're very proud of where we have come from. We believe that our new brand retains the key elements of who we are and will enable us to speak to our customers today and in the future.

FY19 results summary

The 2019 financial year was a year when Baby Bunting truly established itself as the go to destination for baby goods in Australia.

On a 52 week pro forma basis, total sales were $362.3 million, up 19% on the prior corresponding period. Comparable store sales were a healthy 8.7%. Earnings before interest, tax, depreciation and amortization were $27.1 million. This was 45.9% up on the prior corresponding period. Pro forma net profit after tax was up 58.2% to end the year at $15.1 million.

The Company finished the year with the balance sheet in a sound position, including net cash of $2.7 million dollars.

On every measure, this was a very good result.

Matt Spencer, the Company's CEO and Managing Director, will talk more about the 2019 financial year later in the meeting.

In respect of FY19, the Company paid total dividends of 8.4 cents per share fully franked. This was an increase from 5.3 cents in respect of the prior year.

Baby Bunting's core purpose is to support new and expectant parents in the early years of parenthood. We continue to focus on and invest in market share expansion activities that support this purpose.

Growth strategy – grow market share

The Company's strategy to grow market share has not changed and consists of four key elements:

- First, investing in digital to deliver the best possible customer experience across all channels.
- Secondly, investing to grow sales from existing stores.
- Thirdly, growth from new markets.
- And finally, to continue to pursue profit margin improvement.

Baby Bunting has made considerable progress in all of these areas. The results for FY19 demonstrate that by focussing on these elements, we can successfully grow Baby Bunting's market share and deliver for our customers, team members and, importantly, our shareholders.

Remuneration

One of the items of business today is the adoption of the Remuneration Report.

The Board's remuneration philosophy – which has been in place since the Company's IPO in 2015 – is to provide executives with sufficient incentives to grow shareholder value over time by providing participating executives with the opportunity to earn rewards from shares provided to them, combined with a base salary and short-term incentive package that is lower than their peers who do not have the same level of upside in a long term incentive package.

As explained in the Remuneration Report, the Board exercised its discretion to make some one-off grants in the financial year. This was done to ensure that executives continued to have a long term incentive opportunity that operated to appropriately incentivise and reward them for what we expected at the time would be significant growth in earnings and shareholder returns following some decisions made in 2018 to grow market share at the expense of some short term earning constraints. The move was made with a view to the long term interests of the Company.

Given the strong leadership provided by Matt Spencer and the efforts of the Executive Team, the Board is acutely conscious of the need to have a remuneration structure that appropriately incentivises and rewards executive performance where sustainable shareholder value has been generated. The Board is also mindful of the need to provide remuneration structures that work to attract and retain appropriate executive talent. And ultimately, any structure needs to be aligned with the interests of shareholders.

The Board will continue to engage with our shareholders and other stakeholders on the Board's approach to remuneration. Any changes to our approach to remuneration will be detailed in next year's Remuneration Report.

The Board

Turning to the Board.

During the year, Gary Kent was appointed as a non-executive director. Gary is seeking election today. Gary brings some very considerable experience to the Board. He has an extensive background in the retail and services sector having had very successful careers at Coles Myer and the Coles Group, at Skilled Group and at Healthscope.

Gary will address the meeting later this morning and I recommend Gary's election to shareholders.

Employee Gift Offer and our Team

In the last month, the Company conducted its Fifth Gift Offer under its Employee Share Plan. As a Board, we encourage Team Members to become shareholders and to share in the wealth generation attributable to share ownership in Baby Bunting. The Employee Gift Offer is a great way to establish greater alignment between the interests of shareholders and the Team at Baby Bunting.

This year, we made offers to around 650 eligible Team Members of $1,000 worth of Baby Bunting shares for no monetary cost. Now around 50% of all Team Members will hold shares as a result of our Employee Share Plan.

For Team Members who have participated in all five of our annual gift offers, they will have received around 2,300 Baby Bunting shares over that time. At present prices, and without regard to dividends paid in that time, that is more than $8,000 in value.

This is something we're very proud of and demonstrates some of the benefits being a listed company can deliver for our Team Members.

Baby Bunting now employs over 1,250 Team Members around Australia. In the 2019 financial year, we opened stores six new stores which included stores at Hobart, Wollongong and Toowoomba. Each of these stores provides employment for people in those communities and we have been able to provide employment for a number of individuals who found themselves without a role at other organisations following the market changes in 2018.

I want to thank all of our Team Members in our stores, our Distribution Centre and our Store Support Office who all contribute to Baby Bunting's purpose in supporting new and expectant parents in the early years of parenthood.

I will now invite Matt Spencer to provide a bit more detail on FY19. He will also provide an update on trading performance year to date and for the year ahead.

CEO & MANAGING DIRECTOR'S ADDRESS

Thank you Ian and good morning shareholders.

FY19 delivered platform for future growth

I'm very proud of what the Baby Bunting team achieved in FY19.

Ian has mentioned some of the key financial performance metrics. I will discuss in a bit more detail the actions we took during the year that were so important to achieving the results we did.

We started the year in unsettled trading times. There was major competitor disruption and Toys R Us / Babies R US was in administration. Being conscious of the unsettled trading environment, we came together as a Team, and developed a plan to restore long term growth and profitability to the business following a challenging 2018.

We focussed on five clear objectives for the year:

- To capitalise on the market share opportunities that arose due to competitor closures.
- To secure any potential property opportunities from the Toys R Us / Babies R Us store network.
- To stabilise gross margin – which had been eroded due to distressed retailing in FY18 – without compromising our commitment to value to the consumer.
- To drive and invest in our private label and exclusive product expansion program.
- And finally, to bring forward some investment in capability, people and systems to support the market share opportunity that is available now.

Pleasingly, we delivered what we set out to achieve.

In terms of market share growth, we estimate that we have captured market share of around 30% in catchments where there was both a Babies R Us store and a Baby Bunting store.

We have opened stores in Bankstown NSW and relocated to the former Babies R Us store in Cannington WA.

We have also secured the former Toys R Us site in Westfield Doncaster. Our newest store opened there on the weekend.

Gross margin percentage was 190 basis points higher than the prior corresponding period. The unsustainable deep discounting driven by distressed retailing has largely reduced and we have in some instances remodelled or reduced our promotional offers. But as we've said before, I don't want anyone to mistake our intentions. We remain totally committed to providing great value to our customers every day and every visit and we continually focus on our EDLP – or Every Day Low Price or "Best Buy" – strategy to deliver a compelling and competitive offer in the market.

The work with our supplier partners to deliver exclusive products continues to be a focus for our Buying Team. We made significant progress towards our goal of having 50% of sales coming from private label and exclusive products. We lifted these sales by 57% during the year such that at the end of FY19 they make up 27.6% of sales. Private label and exclusive products differentiates us from others in the market and it complements our strategy of gross margin improvement.

Structural landscape has changed

As we have seen over the last few years, the structural landscape in our industry has changed significantly.

We are the only specialty retailer of baby goods who operates across state boundaries.

There is still a significant number of small single store operators in the specialty baby retailing market against whom we compete.

We also continue to compete against the likes of Amazon, Catch (which is now part of Wesfarmers), Kogan and other retailers on eBay. We are confident that we can differentiate our offer from the online only retailers. We focus on our in-store service execution and other services to distinguish us from the department stores, discount department stores and online pureplays.

Brand

As Ian mentioned earlier today, we have modernised our brand. This is the first major brand change since the brand was established 40 years ago by Gail and Arnold Nadelman and it is something we are all very excited about.

The needs of new parents over the 40 years have not changed. They still need support and advice at a very exciting and for some people an overwhelming time in their lives. But in an omni-channel retail environment, the way people shop and interact with Baby Bunting and our brand is different to how it has been historically. Unsurprisingly, products and fashion have also changed over the years. So when it came to thinking about modernising our brand, what we wanted to do was continue to have the same brand essence, but in a more contemporary and fresh way.

Our new brand is just one part of an evolution in how we engage with our customers. We will be adopting a new, fresh and modern way of communicating with our customers through all channels. The new brand will also support personalisation programs and loyalty programs that are more relevant to the modern day parent.

Another consideration for us was that the Baby Bunting brand needs to stand alongside other national and international brands as we expand across different formats and new territories.

We're really excited about the brand and the manifestation of the brand essence. Our new look is already on display at our new Doncaster store. We will now progressively roll out the new livery across our store network, Store Support Office and online presence over the coming months.

Transformation – Investing to grow

Over the past year we have been making investments in transformational projects to grow profitability and support future growth. This investment is expected to extend beyond this year and into the next.

There is a whole range of investments we are making and over the FY20-FY21 period, we expect to invest around $20 million of capital expenditure with a further $5 million of project expenses. This investment will provide a solid foundation for future growth into the years ahead.

Our policy is to be pay dividends from pro forma NPAT. The one-off project expenses and related amortisation from our slate of projects will be excluded from our pro forma results for this period.

I'll discuss a few of these exciting projects now.

Website and e-commerce re-platform

We continue to invest in digital as an important driver of market share growth. With over 20 million visits to the website last year, our online store had a sales growth of 46% and this channel made up for around 11.8% of all our sales. Click and collect where customers buy online and pick up in store grew 55%.

Online traffic and conversion continued to grow with website sessions up 22% on the prior corresponding period.

During FY19, we made a significant investment in a new web platform which is intended to deliver to the consumer a more engaging experience with more information and content. The project experienced some delay with the site launching in early July. The platform has experienced some technical and stability issues which significantly impacted online sales and the customer experience in Q1 FY20. However, the traffic to the site continues to grow and we have seen an increase in average item value. Unfortunately, the issues have meant that we have seen a fall in conversion. Our focus is now shifting to improving and optimising the customer experience on the platform. We have made further investments in our digital team to ensure that we are optimising the benefits of our investment in the new web platform. We expect these initiatives will deliver incremental improvements in website performance which will see sales growth momentum continue to build into the future.

Growth through investing in services

In the last quarter of FY19, we acquired some of our third party car seat installer businesses as a means to grow this revenue through our store network. Expanding our services is another way for us to differentiate ourselves from others and to standardise the car seat installation experience for the consumer.

The installation business has been operating within Baby Bunting for a few months now. What we are seeing is that car seat fitting sales have increased 29% in comparable stores year-to-date. As we build out the service, we expect this part of the business to further support our growth and continue to differentiate us from others in the market.

The car seat business is one part of our broader services strategy. The next focus will be expanding into car seat hire. We have commenced a pilot in Brisbane to better understand how this can be executed throughout Australia. Once we further developed the model, we expect to be able to quickly leverage it into other product categories such as breast pumps and other high value items.

We also have longer term plans to roll out a holiday hire service as part of our overall offer.

Supply chain strategy and online fulfilment hubs

Turning to the supply chain. To deliver EBITDA margin improvement, we have identified through our supply chain strategy, that we can improve the customer experience instore and online and improve cost efficiency through the value chain.

Our business is growing fast, and our focus on private label and exclusive products has meant that we will need to support more product movements through our own logistics infrastructure. We also have an aim to reduce the amount of direct to store deliveries and capture some of the benefits of routing products through our own supply chain. This will improve product availability on the shelves, improve margin, and also reduce administrative burden and inefficient costly processes at store level.

To capture the margin and operational efficiencies in the future, we have made the decision to explore opportunities to relocate to a larger Distribution Centre and Support Office to support the growth of the business. Our current DC and Store Support Office lease is up for renewal in April 2021 so therefore we are aiming to be in new premises in south-eastern Melbourne at the start of the 2021 calendar year.

A new site will enable us to configure the Distribution Centre to support an increasing capacity as well as better fulfilment services. It will also enable us to make appropriate investments in our Store Support Office to better serve our store network and online teams.

We have also identified significant opportunities in relation to online fulfilment. Our long term aim is to fulfil 90% of online orders in metro areas on the same day.

Since July 2019, we have now established two store-based online fulfilment hubs. One at our Hobart store and another at our Cannington, WA store. A third hub will open later this calendar year at our new Casula store. The Casula store is located 35 kilometres west /south-west of the Sydney CBD and very close to the M7 and M5 motorways.

The ability to fulfil and dispatch orders from these hubs differentiates us from our competitors and other online pure plays.

Private Label & Exclusive Products

Turning to our private label and exclusive products range.

Expanding our private label brands and exclusive products is an important part of supporting gross margin expansion as well as differentiating ourselves from others in the market.

We have a long term goal of having 50% of sales coming from private label and exclusive products. During FY19, we lifted these sales by 57% and it made up 27.6% of total sales during the year. This was one of the key contributors to our 190 basis points in gross margin improvement.

Year to date, private label and exclusive products make up around 33% of sales and we are making a number of investments to continue to expand this part of our product range.

We are focussing on building our stable of private label brands and in the not too distant future, we will be launching a new private label, in addition to our existing “4baby” private label. This new range of private label products will be under the “Bilbi” brand. In our range architecture of “good’, “better”, “best” this will sit in the “better” category and will be used primarily in our soft good ranges. We will continue to launch alternative private label brands across other products and categories over time.

Our expanding private label range is being supported by investments in additional team members with a focus on product development, sourcing and quality control and assurance.

Best Buys

We are committed to providing value to our customers, every visit.

Our “Best Buy” range – or every day low price range – of products provides great value for our customers.

In FY19, “Best Buy” products made up 21% of our total sales. Year-to-date the represent around 24% of sales.

In September 2019, we launched the Nuna range of products exclusive to Baby Bunting. Nuna is one of the fastest growing nursery brands in other markets. The Nuna range is now part of our Best Buy range.

Shopping centre format

We continue to open between 4 to 8 stores a year, with a current network plan of over 80 stores. In December 2018, we opened our first shopping centre format store at Chadstone in Melbourne. The Chadstone store is currently our highest transaction volume store in our network and is assisting to promote a strong brand awareness for Baby Bunting.

Only a few days ago, we opened our second shopping centre format store at Westfield Doncaster. We were thrilled to secure a large format store with the right economics in a very important centre in an area of Melbourne that has been on our network plan for some time.

Our shopping centre format stores have all the service attributes of our large format stores with dedicated car seat fitting bays, dedicated parcel pick up areas, layby facilities as well as parenting amenities in store.

We believe that shopping centre format stores – located in the right catchments and with the right store economics – provide a further opportunity to support our growing store network.

We have learnt a lot in a very short space of time from our Chadstone store. We have seen a different trading pattern and different product sales mix. I believe when exposed to higher footfall, we have a greater opportunity to sell more convenience and consumable items as well as grow the sales in soft goods, including apparel and bedding. I believe the strength of our offer in shopping centres allows us to compete with a broader range of retailers and also exposes our value offer to more consumers.

In terms of our new store roll-out, we will have opened three new stores by the end of the first half of FY20. We have opened Doncaster. Next will be a new store at Wetherill Park which is approximately 35 kilometres west of the Sydney CBD. Then, in early December, we expect to open a new store at Casula which is approximately 35 kilometres west/south-west from the Sydney CBD.

For the second half, we have plans for another shopping centre store to be located at Westfield Knox – which is approximately 25 kilometres east of the Melbourne CBD.

We are also in discussions on further potential opportunities across various parts of Australia.

We continue to target new store openings this financial year of between 5 or 6 new stores.

To conclude, we are undertaking these transformational projects to ensure that we continue to invest ahead of the curve to support future growth and to ensure that our service remains relevant to customers across all channels.

FY20 operational priorities

As we do every year, we map out our priorities that underpin our operational and financial performance for the year. This year is no different and I thought I would quickly run through our priorities and comment on how we are tracking at this point of the year.

First, we aim to progress our strategic investments to plan. A lot of work and investment has been undertaken to deliver on our transformational projects. We have made significant progress already this financial year and have invested in capability to support our transformation agenda.

A key priority is to grow gross margin to greater than 36% without compromising on value to the consumer. We have seen a steady and sustained uplift in GP year to date. Some of this improvement is as a result of less clearance of product relative to last year. We have just finished cycling on the significant clearance of two major brands in the furniture and pram categories which occurred last year in September. The impact of this has been a lower comp store sales number but a vastly improved GP performance.

Next, we aim to accelerate our investment in private label and grow our private label and exclusive product to exceed 35% of sales. We are well on track to deliver this and with the recent launch of the NUNA range and the upcoming launch of our private label stroller, we are confident on continuing to grow this part of our business.

We also aim to capitalise on shopping centre opportunities that present themselves. We opened Doncaster over the weekend and have the Westfield Knox store opening later in the year. In addition to this we are having very productive discussions about two other potential shopping centre opportunities.

Finally, we are focussed on achieving operating leverage through our retail network. We are seeing improved efficiency in our stores and, in particular, through the launch of instore technologies that have assisted the service experience.

Overall, I am very pleased by our progress on all fronts and I believe we are well placed for the year ahead.

FY20 outlook remains unchanged

We have had a solid start to the year and the business continues to be on track to deliver our FY20 guidance.

Comparable store sales growth of 3.1% year-to-date reflects the cycling of the unusual trading conditions in Q1 FY19 as a result of the closure of Babies R Us and our clearance activity of some high end cots and prams in September 2018. Online sales year-to-date were affected by technical issues associated with the transition to our new web platform. However, we expect to see online sales growth momentum continue to build. Our guidance assumes comparable store sales growth to be mid-single digits for the year.

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The outlook for FY20 remains unchanged from that announced on 16 August 2019.

Pro forma[1] NPAT is expected to be in the range of $20.0 million to $22.0 million. Pro forma EBITDA (as measured under the old lease accounting standards[2]), is expected to be in the range of $34.0 million to $37.0 million.

We appreciate the support of our shareholders, the Board and the Team.

Thank you.

1 Pro forma financial results will exclude the non-cash impact of employee equity incentive expenses and significant project related costs.

2 The Company will apply AASB 16 (Leases) for the financial year commencing 1 July 2019. Refer to note 2(x) of the Financial Statements (released to ASX on 16 August 2019) for a discussion on the potential impact of the adoption of AASB 16.