



8 October 2019

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

AGM presentation

Attached is a copy of the Chairman's and CEO & Managing Director's presentation to be delivered at the Company's 2019 Annual General Meeting today.

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BabyBunting

Annual General Meeting

8 October 2019

Ian Cornell
Chairman

Matt Spencer
CEO & Managing Director



Important notice and disclaimer

This document is a presentation of general background information about the activities of Baby Bunting Group Limited (Baby Bunting) current at the date of the presentation (8 October 2019). The information contained in this presentation is for general background information and does not purport to be complete. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

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Forward looking statements

This document contains certain forward looking statements and comments about future events, including Baby Bunting's expectations about the performance of its business. Forward looking statements can generally be identified by the use of forward looking words such as 'expect', 'anticipate', 'likely', 'intend', 'should', 'could', 'may', 'predict', 'plan', 'propose', 'will', 'believe', 'forecast', 'estimate', 'target' and other similar expressions. Indications of, and guidance on, future earnings or financial position or performance are also forward looking statements.

Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is a risk that such predictions, forecasts, projections and other forward looking statements will not be achieved. The Baby Bunting Annual Report 2019 which includes the Directors' Report (dated 16 August 2019) contains details of the number of material risks associated with an investment in Baby Bunting. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. Forward looking statements involve known and unknown risks, uncertainty and other factors which can cause Baby Bunting's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements and many of these factors are outside the control of Baby Bunting. As such, undue reliance should not be placed on any forward looking statement. Past performance is not necessarily a guide to future performance and no representation or warranty is made by any person as to the likelihood of achievement or reasonableness of promise, representation, warranty or guarantee as to the past, present or the future performance of Baby Bunting.

Pro forma financial information

Pro forma financial results have been calculated by excluding employee equity incentive expenses, revenue & expenses relating to the 53rd week of the period and non-recurring costs relating to acquisitions, business transformation and brand modernisation projects.

Baby Bunting uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Baby Bunting considers that this non-IFRS financial information is important to assist in evaluating Baby Bunting's performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business.

For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendix to this presentation.

All dollar values are in Australian dollars (A\$) unless otherwise stated.

A close-up photograph of a baby's face and upper torso, smiling and looking to the left. The baby is surrounded by white, bubbly soap foam. The background is a soft, out-of-focus light color.

OUR CORE PURPOSE

To support new and expectant parents in the early years of parenthood

OUR VISION

To be the most loved baby retailer for every family, everywhere

FY19 pro forma results summary

SALES
\$362.3M

Total sales growth **19.0%**
Comparable store sales growth **8.7%**

**GROSS
PROFIT**
35.0%

Gross Profit income **\$126.7m**
Gross Profit growth **25.6%**
Gross Profit % up **190 bps**

EBITDA
\$27.1M

EBITDA growth **45.9%**
EBITDA margin % **7.5%**

NPAT
\$15.1M

NPAT growth **58.2%**
EPS **12 cents**, up **57.9%** year on year
Final dividend **5.1 cents** per share

ROFE
23.5%

FY19 capex **\$11.8m**
Operating cash flow **\$25.4m**

FY19 results are presented on a pro forma basis. Refer to slide 21 of this presentation and section 2.5 of the 2019 Directors' Report for a reconciliation to statutory results.



Growth strategy – grow market share

1 Investment in digital to deliver the best possible customer experience across channels

- **Online (inc. Click & Collect) sales growth of 46%, 11.8%** of total sales for FY19
- **Click and collect** sales grew 55%
- Website re-platform went live early July 2019
- Engage and retain the customer through the customer journey and lifecycle

2 Investment to grow sales from existing stores

- Delivering a leading customer service offering supported by knowledgeable advice and guidance, **NPS score of ~75**, up from ~70 pcp
- Expanding our car seat fitting and hire offer – **car seat fitting sales up 29% YoY** across our comparable stores
- Aiming for same day online fulfillment (metro markets) leveraging store network, with **Hobart & Cannington hubs now operational**

3 Growth from new markets

- Rollout of new stores: 80+ network
 - Continue with major and regional market formats, whilst evolving our shopping centre format and offer
 - **Doncaster Westfield store opened 5 October**
Casula & Wetherill Park (both in NSW) expected to open in 1H FY20

4 Profit margin improvement

- Gross margin expansion by increases in scale, supply chain improvements, improved sourcing, development of private label and exclusive products
- CODB leverage through scale
- Procurement opportunities



FY19 delivered platform for future growth

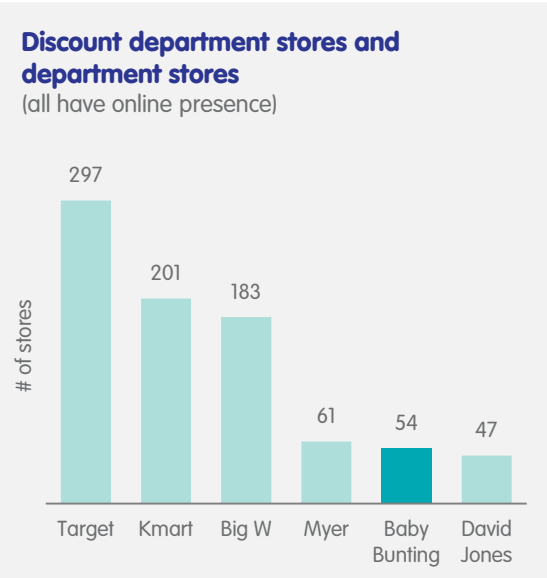
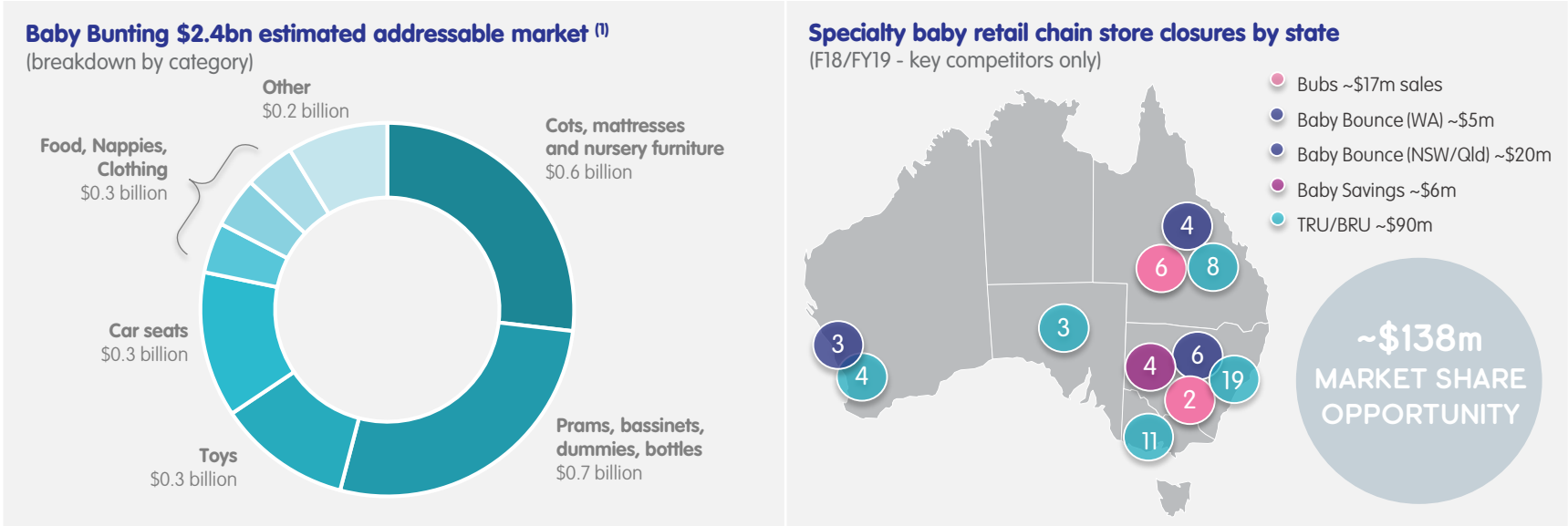
Objective was to grow market share and recover profitability post the competitor disruption experienced in FY18

- 1 Capitalise on market share opportunities from competitor closures
- 2 Secure prime sites for our store network
- 3 Stabilise gross margin without compromising value
- 4 Drive Private Label & Exclusive Product expansion program
- 5 Invest in stores, people and systems to support growth



Structural landscape has changed

Baby Bunting market opportunity remains significant in a changing retail landscape



Pure play online retailers

Baby Bunting has a branded store presence on ebay

Notes:

- To arrive at Baby Bunting's addressable market we discount the food, apparel and nappies categories which are a smaller component of our broad product offering
- Source: IBIS World estimates



BRAND



Evolving our brand to support the next stage of our journey



- Baby Bunting's core purpose remains constant, now more than ever in our 40th year – **supporting new and expectant parents**
- Right time to assess our brand essence and the way in which we **create an emotional connection and engagement** with **current and future parents and parents-to-be**
- Our new brand is one part of an evolution in how we engage with our customers
 - adopting a new, fresh and modern way of **communicating with our customers through all channels**
 - new brand will support personalisation programs and loyalty programs that are more relevant to the modern day parent
- New brand provides flexibility to expand beyond traditional markets and allow us to **scale in an omni-channel retail landscape**
- Brand to stand alongside well-known national and global brands
- New brand first applied at our new Westfield Doncaster store (opened 5 October)



TRANSFORMATION
UPDATE

Transformation Investing to grow

Significant investment in transformational projects to grow profitability and support future growth

FY20-FY21: ~\$20m capex, ~\$5m project expenses, ~\$4m accelerated amortisation



Significant business transformation project pipeline over next 2 years



Website and e-commerce re-platform

Designed to deliver engaging content and experiences for our customers. New website launched July '19.



Online Fulfilment Hubs

Leverage existing store network to facilitate same day fulfilment for 90% of online metro orders, Australia-wide. Hobart & Cannington (WA) now operational, with NSW hub in the pipeline for FY20.



Investing in Services

Completed acquisition of some of our 3rd party car seat installer businesses in Q4 FY19. Training existing staff as supplementary fitters now underway. Experiencing +29% comparable sales growth YTD in car seat fittings.



Loyalty Program

Recent appointment of a Loyalty Manager. Development of program well underway, to be launched this financial year.



Brand Modernisation

Introduced a modern contemporary brand that reflects the brand essence of supporting new and existing parents in the early years of parenthood.



Customer Care

Expand our Customer Care centre, diverting calls from stores whilst re-investing store labour back into in-store customer service.



Core Systems

Improve our Merchandise, Planning and Forecasting systems, as well as Point of Sale and Financial systems. Commenced implementation of new Merchandise forecasting & automated replenishment software.



Expand Ancillary Services

Enter into the nursery hire market with a focus initially on the hiring out of car seat and baby capsules. Currently piloting hire services in Qld.



Supply Chain Strategy

Improving margin by realising value through the investment in supply chain, distribution infrastructure and logistical capability.



Your baby's developmental milestones

Your baby's first 12 months are all about milestones. Most of these will be followed by consolidation in the years that follow, but it can all be traced back to here. Parents and caregivers are

[Read more](#)



Knowing when to switch to solids

Switching your baby to solids – also known as weaning – is a huge step in their early life. It is from this point that your baby will

[Read more](#)



Learning to walk

Learning to walk is an exciting milestone for babies and parents, and a big step towards independence. It's amazing how much older a

[Read more](#)

Your newborn checklist. We've got everything covered.

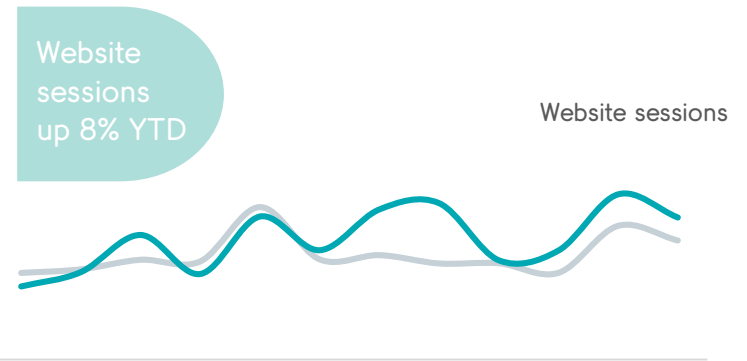
This is everything you need to be prepared for the arrival of your little one.

[Check it out](#) →



Website & e-commerce re-platform

- New website platform launched early July 2019
- Engaging content, including articles to assist customers with their parenting & pregnancy journey
- Technical and website stability issues post implementation significantly impacted online sales and the customer experience in Q1. These issues have largely been addressed
- Focus now shifting to optimising website and e-commerce experience:
 - Website traffic and average selling price trending above prior year since Week 6
 - Conversion rate now stabilising and in line with prior year run rates (with further enhancements expected to lift this metric higher)
 - Gift Registry yet to transition to new platform – this will be a focus for the period ahead



— FY19 — FY20

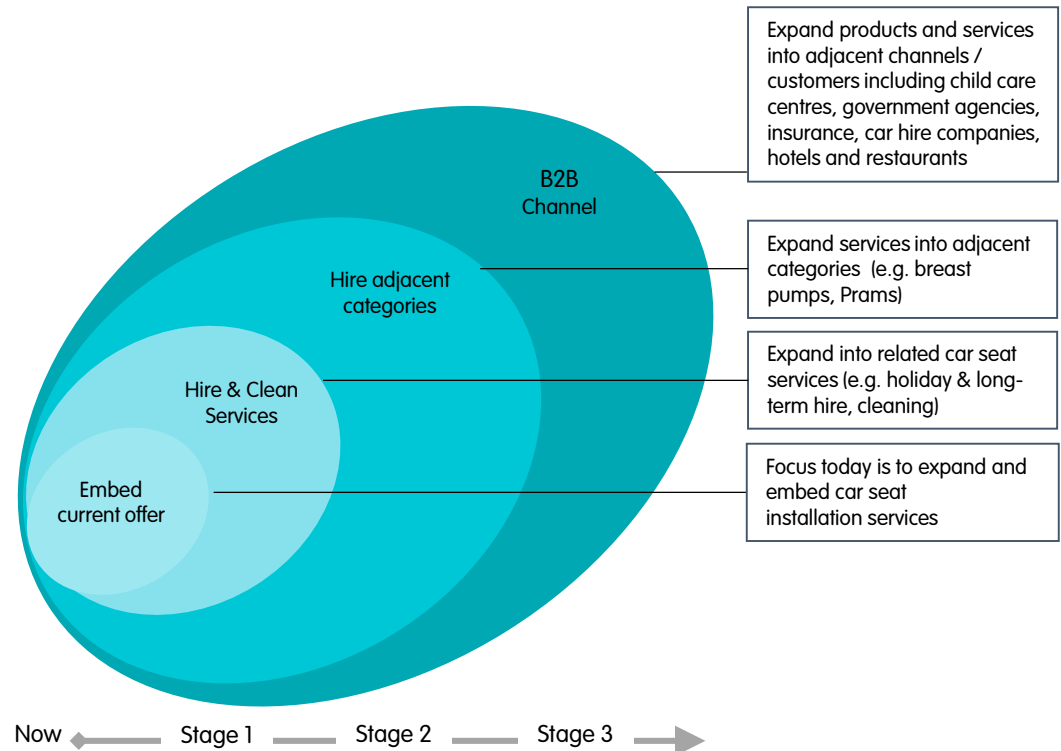
Growth through investing in services

Investing in car seat services

- Successful integration of the recently acquired car seat installation businesses into Baby Bunting
- 29% increase in car seat fitting sales in comparable stores year-to-date

Expanding ancillary services

- Focus is to expand our car seat hire offering. We have commenced a pilot in Brisbane to better understand how this service will be rolled out across our store network
- Our aim is to grow the services businesses organically and are looking at B2B opportunities





Supply Chain Strategy & Online Fulfilment Hubs

Capturing value through supply chain investment

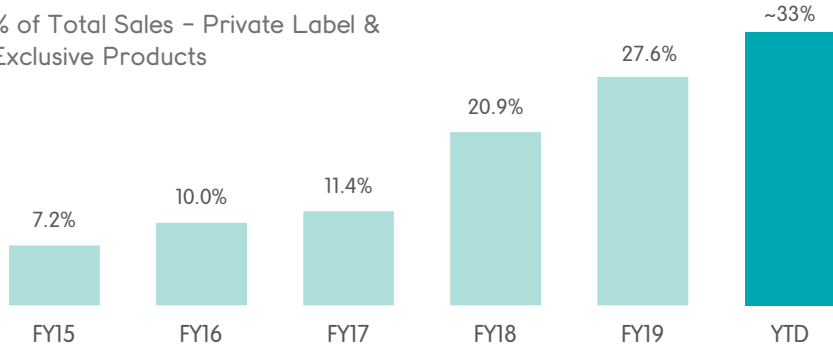
- Investment in a larger Distribution Centre facility to support the long-term aspirations of network growth to 80+ stores
- Leveraging scale to achieve efficiency through our own logistics capability and reduce transport & 3PL storage costs
- Supporting the increase in Private Label & Exclusive products and direct imports
- Maximising margin opportunities by controlling more of our products through our Distribution Centre rather than direct to store

Online Fulfilment Hubs

- Significant progress made in the establishment of online fulfilment hubs
- Long term goal to fulfil 90% of online orders in metro areas same day
- **Hobart (Tas)** commenced fulfilling orders Jul 2019
 - Whilst some orders are dispatched same day, all are consigned and dispatched within 24 hours of the initial order being received
- **Cannington (WA)** commenced fulfilling orders in Sep 2019
- Progress being made to establish a fulfilment hub in **Sydney** in 1H FY20

Private Label & Exclusive Products

% of Total Sales – Private Label & Exclusive Products



- Delivering both improved **value** for customers and increased **gross margins**
- **Strategic differentiation** from our competitors
- Year-to-date Private Label & Exclusive Product sales currently represent **~33% of total sales** compared to ~23% in the prior corresponding period
- Initiatives to support our Private Label and Exclusive product expansion, include:
 - **Nuna launched in September** – internationally awarded for quality product design and one of the best selling baby brands in the USA market
 - **4baby brand refresh** and introduction of **new soft-goods private label brand 'Bilbi'**. In our brand hierarchy of *good, better, best*, Bilbi sits at *better*
 - **Private Label pram** 'Panorama' launching in October
 - Appointment of a Product Development Manager and additional resources in Quality Control, Compliance & Assurance



Exclusive

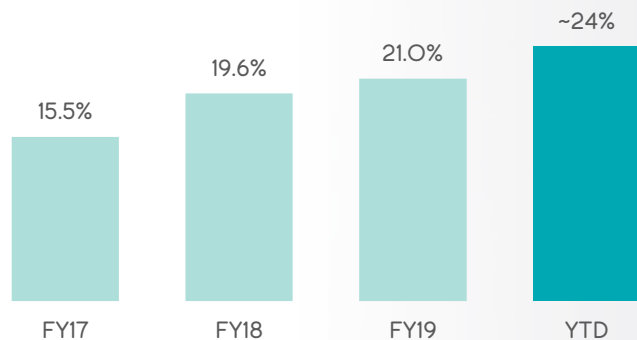


Exclusive



Committed to providing value to our customers, every visit

- **Value is the number one driver** to purchase in our category
- Our goal is to be as **competitively priced** as the discount department stores and with a far wider range
 - **Builds trust** with our customer base
 - **Every Day Low Prices** changes the flow of sales, more products on Best Buy means less reliance on promotion
 - Reduces the instances we Price Beat our competitors
- Best Buys made up 21% of our total sales during F19 (F18: 19.6%) and **~24% of total sales year-to-date**
- In Q1 we continued to invest in our Best Buy range across a number of categories including Prams, Carriers and Babywear, as well as the introduction of the Nuna brand
- Our core range of Car Seats was added to our Best Buys range in July '18





SHOPPING CENTRE FORMAT

CHADSTONE

THE FASHION CAPITAL

- Australia's premier retail destination
- 23m annual footfall & ~\$2bn retail sales

Westfield
DONCASTER

- Grand opening 5 October 2019
- Situated 17 km north-east from Melbourne's CBD
- 15.5m annual footfall & ~\$1bn retail sales
- New catchment for Baby Bunting

Westfield
KNOX

COMING SOON

- Situated 25 km east of Melbourne's CBD
- 14.3m annual footfall & ~\$0.7bn retail sales
- New catchment for Baby Bunting

Clear demand for specialty baby goods retailer in shopping centre format

- Chadstone is now our number one store in terms of transaction volumes (35% higher than the Top 10 store average)
- High footfall driving a varied product mix (higher % of consumables & soft goods at higher gross margins)
- Baby Bunting adds value to the shopping centre by increasing its attractiveness to young families
- Promoting strong brand awareness and opportunity to expand our addressable market
- Shopping centre fitout requires a larger investment than destination stores; rent is comparable with our existing stores
- Retaining all the service attributes as our large format stores



Click&Collect



Complimentary gift wrap



1,500 sqm



Layby



Parenting Room



Parking

FY20 operational priorities

- 1 Progress our strategic investments to plan
- 2 Grow gross margin to be greater than 36% without compromising on value to the consumer
- 3 Accelerate our investment in Private Label products. Grow our Private Label & Exclusive Product sales to exceed 35% of sales
- 4 Capitalise on shopping centre opportunities that present themselves
- 5 Achieve operating leverage through our retail network



FY20 outlook remains unchanged



- Year-to-date (as at 6 October 2019) **comparable store sales growth is 3.1%**, reflecting the cycling of 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 affected by technical issues associated with the transition to new web platform – expect to see online sales growth momentum continue to build
- **Gross Margin (year-to-date) is 36.6%, up 270 bps on prior year**, outperforming our expectations – performance reflects growth in Private Label and Exclusive Products and less clearance activities relative to prior period
- Pro forma NPAT expected to be in the range of \$20.0 million to \$22.0 million. Pro forma EBITDA (as measured under old lease accounting standards), expected to be in the range of \$34.0 million to \$37.0 million
- Guidance assumes:
 - Comparable store sales growth to be **mid-single digits** for the year, noting we are cycling 8.7% for FY19
 - Full year **gross margin to progress in line with year-to-date performance and exceed 36%** in FY20
 - Guidance assumes the opening of 5 new stores in FY20: Doncaster (5 Oct), Wetherill Park / Casula in 1H plus 2 more stores in 2H
 - Excludes employee equity incentive expenses and significant project related costs

Note: Refer to "Forward looking statements" section on page 2 of this Presentation (regarding the risks associated with forward looking statements). Please also refer to section 4 of the 2019 Directors' Report (dated 16 August 2019) which describes some of the key risks and uncertainties that may have an effect on the Company's ability to execute its business strategies.



APPENDICES

Statutory - Pro Forma Income Statement Reconciliation

	FY2019		
	Statutory FY19	Add Pro Forma adjustments (a)	Pro Forma FY19
\$ million			
Sales	368.0	(5.7)	362.3
Cost of sales	(239.6)	3.9	(235.7)
Gross Profit	128.4	(1.8)	126.7
Store expenses	(74.4)	1.4	(73.0)
Marketing expenses	(6.0)	0.0	(6.0)
Warehouse expenses	(5.1)	0.1	(5.0)
Administrative expenses	(18.1)	2.5	(15.6)
Project expenses	(0.8)	0.8	0.0
EBITDA	24.1	3.1	27.1
Depreciation and amortisation	(5.1)	0.1	(5.0)
EBIT	18.9	3.1	22.1
Net finance costs	(0.7)	0.0	(0.7)
Profit before tax	18.3	3.1	21.4
Income tax expense	(5.8)	(0.4)	(6.3)
Net profit after tax	12.4	2.7	15.1

	FY2018		
	Statutory FY18 (restated)	Add Pro Forma adjustments (a)	Pro Forma FY18 (restated)
Sales	304.5		304.5
Cost of sales	(203.6)		(203.6)
Gross Profit	100.9		100.9
Store expenses	(61.1)		(61.1)
Marketing expenses	(5.6)		(5.6)
Warehouse expenses	(4.1)		(4.1)
Administrative expenses	(12.5)	1.1	(11.5)
Project expenses	0.0		0.0
EBITDA	17.5	1.1	18.6
Depreciation and amortisation	(4.4)		(4.4)
EBIT	13.2	1.1	14.2
Net finance costs	(0.6)		(0.6)
Profit before tax	12.5	1.1	13.6
Income tax expense	(3.9)	(0.2)	(4.0)
Net profit after tax	8.7	0.9	9.6

- a) Pro forma financial results have been calculated to exclude employee equity incentive expenses, revenue & expenses relating to the 53rd week of the FY19 period and non-recurring costs relating to acquisitions, business transformation and brand modernisation.

The Baby Bunting Financial Report for the full-year which includes the Directors' Report (dated 16 Aug 2019) contains further details of the above adjustments under the section "Pro forma financial results".

Glossary

Comparable Store Sales Growth	<ul style="list-style-type: none">• Calculated as a percentage change of the total sales generated from stores (including the online store) in a relevant period, compared to the total sales from the same set of stores in the prior financial year, provided the stores were open at the beginning of the prior financial year
Cost of Doing Business (CODB)	<ul style="list-style-type: none">• Includes store, administrative, marketing and warehousing expenses (excluding depreciation and amortisation)
Return on Average Funds Employed (ROFE)	<ul style="list-style-type: none">• Return on average funds employed (ROFE) is calculated as pro forma EBIT for the previous 12 months as a percentage of average (opening, mid and closing) funds employed. Total funds employed is net assets excluding net debt and net tax balances
Exclusive Products	<ul style="list-style-type: none">• Products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time
Private Label	<ul style="list-style-type: none">• Products sold by Baby Bunting under its own brand (Baby Bunting currently markets its private label products under the “4baby” brand name and will shortly introduce a new private label to be known as “Bilbi”)
