



21 November 2016

ASX Market Announcements Office  
Australian Securities Exchange

**Baby Bunting Group Limited (ASX: BBN)**

**CEO & Managing Director's address to shareholders at 2016 AGM**

Attached is a copy of the CEO & Managing Director's address to shareholders to be delivered at the Company's 2016 Annual General Meeting.

Also attached is the presentation referred to in the address to shareholders.

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**BABY BUNTING GROUP LIMITED**  
**2016 ANNUAL GENERAL MEETING – 21 NOVEMBER 2016**

**ADDRESS BY MATT SPENCER, CEO & MANAGING DIRECTOR**

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Thank you Barry, and good morning shareholders.

The 2016 financial year was a good year for Baby Bunting and it's very special to be standing here on the occasion of the Company's inaugural Annual General Meeting as a listed company.

I will be saying a few words about the highlights of the Company's results for the 2016 financial year. I will also provide a brief update on operational matters and the Company's growth strategy.

SLIDE: FY2016 RESULTS HIGHLIGHT

We released our financial results and our statutory accounts in August.

Rather than going through the results in detail, I wish to highlight some of the key achievements for the 2016 financial year.

Sales in the past financial year were very strong at \$236.8 million up 31.4% on the 2015 year. A large component of this came from the positive comparable store sales performance which ended the year at 12.5%.

Gross profit income was also up 31.2% and the cost of doing business improved by 109 basis points. This combined with increased gross profit income and headline sales, resulted in a pro forma EBITDA result of \$18.7 million up 51.1% on the prior year. NPAT for the year on a pro forma basis was up 55.8% on the prior corresponding period coming in at \$10.6 million, out of which we paid a fully franked dividend of 6.3 cents in September. Overall a very pleasing financial performance.

During the year we opened 5 new stores. We also had our store network plan reviewed. This resulted in the network plan being revised upwards. It now reflects a future store network of over 80 stores.

In terms of business processes, we have an ambitious IT roadmap to support the growth of the business. In the 2016 financial year, we completed a number of IT related projects. These included:

- implementation of a new warehouse management system;
- implementation of a new responsive website;

- introduction of click and collect;
- introduction of a new online learning and development platform including an intranet platform;
- introduction of a Business Intelligence tool to assist with reporting and analysis;
- the upgrade of our communications infrastructure and the transformation of our data storage by moving to a hosted data centre environment;
- a very busy, productive and fun year and I should pay special tribute to the Executive Team and their respective teams for a job very well done. Thank you all.

#### SLIDE: FY2017 GROWTH STRATEGY & OPERATIONS

Turning our attention to an update on our business operations and our growth strategy. By way of recap, there are three key elements to our growth strategy:

1. Opening new stores;
2. Growth from existing stores and online;
3. EBITDA margin improvement.

To help achieve these 3 elements, we are focused on investing to support growth in the areas of:

- building the best team and capability;
- investing in IT and business process to support a multi-channel retail operation;
- investing in logistics capability to support growth.

#### New stores:

As I mentioned, we revised our store network plan during the year, up from 70 stores to a network of over 80 stores. Generally, we plan to open between 4-8 stores per year to ensure the best possible execution of our offer.

In the current year, our plan is to have 4 stores open before Christmas – being Preston in Victoria, Camperdown in Sydney, Baldivis in WA (which opened over this last weekend). The fourth store will be in Belrose on the northern beaches of Sydney and we expect it to open before Christmas.

We have a healthy pipeline of store opportunities for the remaining half and into the next financial year.

## Growth from existing stores and online

We continue to see positive growth across our profile of stores and online.

Online will very soon be our largest single trading unit in the network. Online now accounts for 5.7% of our sales year to date, up from 4.2% of sales in FY16.

As we transition our click and collect service from a centralised fulfilment model to a store based fulfilment model we expect to see some cross channel switching of sales from the online channel to the bricks and mortar store network. The overall result will be a broader range of products available online and a far better shopping experience for the consumer.

In terms of consumer engagement, in the first quarter of this financial year we introduced an opportunity for our customers to rate their experience each time they transact with us. Our Net Promoter Score is 57, highlighting what we think is a good level of customer loyalty with the brand. Nevertheless, as with everything we do, we continue to see opportunities for improvement in the future.

## EBITDA Margin Improvement

Our private label and exclusive product offerings continues to expand. I have been very pleased in the first quarter of this financial year by the progression of our Best Buy program. Our Best Buy program consists of a number of items, across a wide range of categories that are priced at great value to ensure a wide offering for all of our customers. We continue to see very positive trends in the uptake of our volume and value lines that make up our Best Buy program. This is just one example of our commitment to continue to work on delivering more value to our customers every day and every visit.

In terms of the Baby Bunting Team, we recently received the results of our inaugural employee engagement survey. This is a survey which provides insights into our Team's alignment and engagement. The theory being the more aligned and engaged the workforce is, the better the performance of the business. I was pleased by the outcomes of the survey and now we are working across the Team to build on our high levels of engagement. We have continued on the theme of "building the best team" and have launched a national training program for sales and leadership across our store network.

In relation to the market, we have seen further investment by some competitors as well as some new-to-industry stores opened. As we have seen in the past, there has also been some rationalisation of independent specialty stores.

At times during the first quarter we have experienced some pricing pressure on a small number of key lines that have been discounted in the market. Our response to changes in competitor activity is that we will ensure that Baby Bunting customers can continue to have confidence that our prices will always provide great value on each and every visit.



#### SLIDE: BABY BUNTING'S STORE NETWORK

Our store network now stands at 39 stores with a further store to be opened before Christmas at Belrose on the Northern Beaches in Sydney.

The new stores we have opened this financial year are trading to expectation.

#### SLIDE: Trading Update

I have been pleased with our operational and trading performance so far this financial year. We have ticked off many items on our agenda and trading has been meeting our expectations.

As at 13 November, we had grown sales year on year by 20.3% with comparable store sales growth for the period of 10.0%. This is above our historical comparable store sales growth performance. We do expect comparable store sales growth to moderate as the year progresses to be more in line with our historical average as we continue to cycle on very strong comparable store sales experienced in the second half of the 2016 financial year.

Our EBITDA guidance remains unchanged for the year and is expected to be in the range of \$21.5 million to \$24.5 million, representing year on year growth of between 15% to 31%. This excludes employee equity incentive expenses.

We expect that we will open between 6 and 8 stores for the full year.

Before I conclude my comments, I would like to take a moment to acknowledge the contribution of Barry Saunders. As shareholders are aware, Barry has decided not to seek re-election today and as a consequence he will step down as a director at the conclusion of this meeting.

Barry, I wish to thank you for everything you have done for the Baby Bunting business during your time as a director and chairman of the Company. The support you have provided to me, the Board and the Executive Team has taught us all a lot and put us all in good stead. On behalf of the Board and Executive Team, we thank you and wish you well for the future. You should leave knowing that the things you have put in place over your years of service, will serve us all well for what we expect to be a very successful future.

Thank you.

# FY2016 Results Highlights

<b>1</b> TRADING	<ul style="list-style-type: none"><li>• Sales of \$236.8 million, up 31.4% on the prior corresponding period</li><li>• Comparable store sales growth of 12.5%, including 15.7% in the second half</li><li>• Gross profit income up 31.2%, gross margin of 34.3% was consistent with FY2015</li><li>• Cost of doing business (pro forma) improved by 109 bps, to 26.4% of sales</li></ul>
<b>2</b> EARNINGS <sup>(1)</sup>	<ul style="list-style-type: none"><li>• EBITDA (pro forma) of \$18.7 million, up 51.1% on the prior corresponding period</li><li>• EBIT (pro forma) of \$15.5 million, up 55.1% on the prior corresponding period</li><li>• NPAT (pro forma) of \$10.6 million, up 55.8% on the prior corresponding period</li><li>• Fully franked dividend of 6.3 cents declared and paid in September 2016</li></ul>
<b>3</b> CAPITAL STRUCTURE	<ul style="list-style-type: none"><li>• \$7.4 million of cash at year end FY2016, including an \$20.0m undrawn borrowing facility</li><li>• Operating cash flow of \$9.0 million</li><li>• \$28.7m of new equity raised in the IPO and through the exercise of options</li></ul>
<b>4</b> GROWTH	<ul style="list-style-type: none"><li>• EBITDA (pro forma) margin growth of 102 bps, to 7.9% of sales</li><li>• 5 stores opened in Booval, North Lakes, Burleigh Waters and Capalaba in QLD, and Campbelltown in NSW</li><li>• Launched improved website, click-and-collect functionality and other IT initiatives</li></ul>

Note:

1. Refer to the Financial Report for the year ended 26 June 2016 for a reconciliation of the non-IFRS financial information contained in this presentation to the IFRS-compliant information

# FY2017 Growth Strategy & Operations

<b>1</b> New Stores	<ul style="list-style-type: none"><li>• New stores opened at Preston Vic (Aug '16), Camperdown NSW (Oct '16), Baldivis WA (Nov '16)</li><li>• Belrose NSW to open pre Christmas</li><li>• Committed to opening 4 to 8 stores each year with a strong pipeline of new store opportunities. Store network plan of 80+ stores</li></ul>
<b>2</b> Existing Stores & Online	<ul style="list-style-type: none"><li>• Online represents 5.7% of sales year to date</li><li>• Click &amp; Collect rollout of store based inventory fulfilment to be rolled out early in Q3</li><li>• NPS of 57 measured at a transaction level, indicates strong customer engagement</li></ul>
<b>3</b> EBITDA Margin Improvement	<ul style="list-style-type: none"><li>• Private label &amp; exclusive products continue to grow</li><li>• Volume and value statements and the Best Buy program expanding with new products introduced</li><li>• Cross dock and EDI implemented with suppliers and 3PL partner</li></ul>
<b>4</b> Business Operations	<ul style="list-style-type: none"><li>• Employee Alignment &amp; Engagement Survey completed with top quartile outcomes</li><li>• CRM Project commenced focusing on targeted communication and customer loyalty through engagement</li><li>• National sales and leadership training launched across the store network</li><li>• Data centre migration continues</li></ul>
<b>5</b> Market Conditions	<ul style="list-style-type: none"><li>• Competitor activity continues to be dynamic, with some new store openings along with store closures</li><li>• Pockets of competitor activity focussed on the discounting of core brands</li><li>• DDS strategies evolving</li></ul>

# Baby Bunting's Store Network

39 stores across Australia, with significant roll-out potential to over 80 stores



**New South Wales - New Stores**  
Belrose – Fit out commenced, expect to be open before Xmas

Queensland	
Helensvale	Booval
Kawana	North Lakes
Fortitude Valley	Burleigh Waters
Townsville	Capalaba
Macgregor	

New South Wales and ACT	
Penrith	West Gosford
Warners Bay	Campbelltown
Taren Point	Fyshwick (ACT)
Auburn	Camperdown (21 Oct '16)
Moore Park	

Victoria		
Hawthorn	Ringwood	Maribyrnong
East Bentleigh	Thomastown	Bendigo
Frankston	Ballarat	Preston (19 Aug '16)
Taylors Lakes	Geelong	
Narre Warren	Hoppers Crossing	

South Australia	
Gepps Cross	Melrose Park

Western Australia	
Cannington	Midland
Myaree	Osborne Park
Joondalup	Baldivis (19 Nov '16)





# Trading Update

## FY2017 outlook continues to reflect a strong trading performance and further new store rollout

- Year to date sales growth of 20.3% at 13 November 2016
- Year to date comparable store sales growth as at 13 November 2016 was 10.0%. Comparable store sales growth is expected to moderate to be more in line with the historical average (mid single digit) as we cycle against the prior year's strong comparable store sales growth
- Online represents 5.7% of sales year to date to 13 November 2016
- Anticipate between 6 and 8 new stores to be opened in FY2017, 4 stores open in the first half
- EBITDA expectation unchanged and to be in the range of \$21.5 million to \$24.5 million, representing year on year growth of between 15% to 31%. This excludes employee equity incentive expenses
- Baby Bunting will change to a 27 week first half reporting period in FY2017 to ensure the first half of FY2017 includes the Boxing Day sales event to be consistent with prior years