



20 November 2017

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

TRADING UPDATE

- **Sector consolidation and related clearance activity is driving short term pricing and margin deflation**
- **Baby Bunting well placed to grow market share once activity cycles through**
- **Baby Bunting now expects FY2018 EBITDA (excluding employee equity incentive expenses) to be around that achieved in FY2017 (\$23m pro forma EBITDA)**

Baby Bunting Group Limited (**Company**) announces that it now expects FY2018 EBITDA (excluding employee equity incentive expenses) to be around the pro forma EBITDA achieved for FY2017 of \$23 million. Comparable store sales growth for FY2018 is expected to be around 4%.

The Company has previously stated that it expected FY2018 EBITDA to be in the range of \$25.3 million to \$27.0 million. In updating the market on 11 October 2017, the Company stated that the competitive environment and stock availability needed to stabilize in order to achieve the Company's stated earnings guidance range. Indications to date are that this will take longer than anticipated. Market pricing has not yet stabilized as industry consolidation and some aggressive discounting continues. Also, some supply issues with a leading car seat supplier, which were expected to resolve from mid-October, have only now started to resolve. This has adversely affected sales by around \$2 million during this time.

In commenting on the update, Matt Spencer, CEO & Managing Director said "Given the challenging conditions in the first four months, we think it appropriate to adjust our guidance. Nevertheless, the business is performing well and we believe our strategy is working."

"We introduced everyday low pricing on our core range of car seats into the market in late July which has seen us grow market share. This is an example of how our customers can have the utmost confidence in the price of baby goods at Baby Bunting."

Matt Spencer continued, "To give shareholders some colour around the current market conditions and the impacts, we are sharing some information beyond what we normally publish to give a sense of the underlying performance of our business."

- As at 13 November 2017, total business sales are up 11.4%.
- On a comparable store basis, store sales were flat, however pleasingly, unit sales are up 4.2% and transactions are up 3.1% (YTD against same period last year).

- Price deflation* of 4.3% YTD, offset by better buying terms of 2.6%. Resulting in GP% reduction of 1.7% (YTD against same period last year).
- Expect sales momentum to build as market share grows based on competitor closures and the expected 8 new Baby Bunting stores planned for opening in FY2018:
 - Munno Para (SA) opened in July and Albury (NSW) opens this week
 - 6 new stores in 2H, including Aspley (Qld) (early January) and Browns Plains (Qld) (March) with leases being finalised for a Queensland regional store, Chatswood (Sydney) and for a further store in each of NSW and in Melbourne.

The updated guidance takes account of the following key assumptions:

- price recovery is not included in the sales or gross margin year-to-go forecast
- comparable store sales growth of ~4% for FY2018
- new FY2018 stores (8) to contribute ~\$12 million in sales. Six stores to open in 2H FY2018
- FY2018 gross margin % to be around 33.3% (LY 34.3%). Margin expected to improve throughout the back of the year and to have recovered to approximately the same level as FY2017
- key initiatives already underway for margin improvement include:
 - increasing exclusives in core categories
 - increased FOB direct importing
 - improving trading terms with key suppliers
- store expenses as a % of sales consistent year-on-year (at ~21% of sales)
- investment in overheads to be \$2.5 million due to timing and savings (versus initial estimate of \$3.0 million)
- overheads as a % of sales to be 5.3% versus 5.1% in FY2017, noting CODB leverage expected to return in FY2019.

This guidance is also provided subject to the important notice regarding forward looking statements in the AGM presentation released to ASX at the same time as this update.

Investor call

A discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.00am (AEDT)** this morning.

To access the call, you must register promptly by 9.00am (AEDT) using the details below:

Australian guests	Dial: 1800 725 000
International guests	Dial: +61 2 8373 3610
Conference ID	6674349#

For further information, please contact:

Corey Lewis
 Company Secretary
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* Price deflation is a measure of change in average sale price of all items (excluding clearance items).