19 November 2018

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

Trading Update and AGM presentation

STRONG FY19 TRADING CONTINUES

- **Strong trading year to date with comparable store sales growth of 9.6%**
- **Total sales have increased by 17% relative to the prior comparable period**
- **Positive gross margin improvement, with gross margin on track to exceed 34% in FY19**
- **FY19 EBITDA now expected to be in the range of $25 million to $27 million, excluding employee equity expenses**
- **New shopping centre format store to open at Chadstone Shopping Centre, Victoria in late December 2018**

Attached is a copy of the Chairman's and CEO & Managing Director's address to shareholders to be delivered at the Company's 2018 Annual General Meeting today. The address contains comments in relation to year to date trading and the outlook for FY19.

After around 20 weeks of trading, Baby Bunting now forecasts that pro forma EBITDA for FY19 will be in the range of $25 million to $27 million, excluding employee equity expenses. This represents growth of between around 34% and around 45%.

Comparable store sales for the first 20 weeks (up to 15 November 2018) have been 9.6%. Total sales have increased by 17% relative to the prior comparable period. There has been positive gross margin improvement and Baby Bunting is on track to achieve guidance of gross margins exceeding 34% for the year.

Baby Bunting anticipates opening a further two new stores prior to Christmas, bringing the store network to 52 stores: at Chadstone, Baby Bunting's first shopping centre format store and at Bankstown in a former Toys R Us / Babies R Us location. Plans are also progressing for a store at Shellharbour near Wollongong, which would be the sixth new store for FY19.

Further details are contained in the attached address.

BABY BUNTING GROUP LIMITED
2018 ANNUAL GENERAL MEETING

CHAIRMAN'S ADDRESS (IAN CORNELL)

The 2018 financial year

Good morning ladies and gentlemen.

From the perspective of our financial performance, the 2018 financial year was a challenging year. It was a year characterised by significant competitor store closures, price deflation and deep discounting driven by distressed retailers seeking sales and market share.

However, I am pleased by Baby Bunting's performance in such a tough trading environment and the progress that was made in growing market share and implementing our strategy. Total sales for the year were $303.1 million, up 9% on the prior corresponding period. On a pro forma basis, earnings before interest, tax, depreciation and amortization were $18.6 million. This was down 18.9% on the prior corresponding period. Pro forma net profit after tax was $9.6 million, down 25.9% on the prior corresponding period.

The Company finished the year with $7.2 million of cash, plus $19.2 million available in a borrowing facility. The balance sheet is sound and the combination of our cash generation and funding capacity supports our future growth programs.

Matt Spencer, the Company's CEO and Managing Director, will talk more about the 2018 financial year later in the meeting.

In respect of FY18, the Company paid total dividends of 5.3 cents per share fully franked, representing around 70% of pro forma NPAT.

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

Our continuing strategy for market share growth

The Board remains committed to the Company's strategy to grow market share through:

- First, investing in digital to deliver the best possible customer experience across all channels. We are already seeing the benefits of our investments in CRM and the single view of the customer.

- Secondly, investing to grow revenue from existing stores by leveraging the store network and investing in service and the customer experience.
- Thirdly, growth from new markets by building the store network of over 80 stores across a number of formats. These formats consist of our major market destination format, our smaller regional format and now - and most notably - a shopping centre format, developed for our soon to be opened store in the Chadstone Shopping Centre, one of the largest shopping centres in the southern hemisphere.
- And finally, to continue to pursue EBITDA margin improvement through gross margin expansion and delivering operating leverage through scale. This is to be done without compromising on value to the customer or our investments to support future growth.

The FY18 financial results do not fully reflect the important and positive progress we made during that year in pursuit of our market share growth.

I would like to take a little time to highlight some of the many positive steps we have taken during the year.

Our investment in everyday low prices and expansion of our Best Buy range of products continue to resonate well with the customer. This was a strategic initiative in FY18 that has been an important driver of market share growth.

Our investment in digital has resulted in a 63% uplift in online sales during FY18 with almost a third of online sales being click and collect transactions, where we get to see the customers again in store. We will be launching a new website soon which is aimed at delivering improved content and engagement with our customers.

During the prior financial year significant progress was made working with suppliers to differentiate our product offering through our private label and exclusive products strategy. We anticipate that this category of products will make up over 25% of sales in the current financial year. Our long term target is 50% of sales.

Employee Gift Offer

About a month ago, the Company completed its Fourth Gift Offer under its General 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. We believe that by making the Employee Gift Offer available to members of the Team, we gain greater alignment between the interests of shareholders and the Team at Baby Bunting.

This year, we provided around 550 eligible Team Members with $750 worth of Baby Bunting shares for no monetary cost.

More than 50% of all Team Members now hold shares as a result of these offers. For Team Members who have participated in all four of our annual gift offers, they have received around 1,900 Baby Bunting shares. This is something we are very proud of and it helps to support strong alignment and engagement with our Team Members.

The Board

Turning to the Board. At the end of the year Stephen Roche retired as a director to take up an executive position and return to his home town of Adelaide. We wish Stephen well in his new role.

Today both Melanie Wilson and I will be seeking re-election at this AGM (and shortly we will be saying a few words seeking your support for our re-election).

Given the Company's size and stage of growth, the Board considers that the optimal number of directors is between 5 to 7 non-executive directors. Accordingly, we are currently searching for an additional Board Member to replace Stephen and we are seeking candidates that will complement the already strong retail skills and expertise currently present on the Board.

To conclude my comments, whilst the results for FY18 were below what was targeted at the start of FY18, it is my strong view that from a strategic development point of view, the last twelve months have put the business in a very sound position to achieve further strong market share growth.

There are over a thousand members of the Baby Bunting Team who work across our 50 store network, our distribution centre and in the store support centre. I would like to thank them for their dedication to supporting new and expectant parents navigating the early years of parenthood.

I will now invite Matt Spencer to provide a bit more detail on FY18. 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.

The FY2018 financial overview

In the 2018 financial year we were faced with several challenges as sector consolidation and business closures dominated the baby goods retailing industry.

Despite these challenges, the business delivered another year of good market share growth plus significant progress was made on a number of strategic fronts.

At a high level, we expanded our store network to almost 50 stores, grew private label and exclusive products to be over 20% of sales, grew online sales by more than 63% and click and collect sales by 66%.

Our focus on customer service saw us finish the year with a Net Promoter Score of 70.

And, important executive appointments have been made in key growth areas of digital, supply chain, marketing and loyalty.

Like Ian, I am proud of the Team who have worked tremendously hard to execute on our growth strategy and to execute on our vision to be the most loved baby retailer for every family, everywhere.

Key callouts for the 2018 financial year include:

- We grew market share with full year sales growing 9%.
- Comparable store sales were flat, with positive comparable store sales growth in the second half of the year of 1.3%.
- Transaction count grew by 12.5% and unit sales were up by 13.4%.
- Significant price deflation of 3.6% was experienced during the year, the result of unprecedented sector consolidation.
- Gross profit percent was 100 basis points below the prior year, attributed to the tough market conditions. Gross profit improved in the fourth quarter and has continued to improve.

Looking at the balance sheet, the key highlights were the investment in stores, maintaining working capital ratios and our dividend payout ratio at around prior year levels. We retained headroom in the borrowing facility in a challenging year.

The clear leader in specialty baby goods retail

There have been significant changes in the specialty baby goods retail landscape since September 2017. What we have experienced has been unprecedented. Our four largest specialty competitors by shop fronts have exited the market. The largest competitor network to close was Babies R Us who closed their doors in August 2018. The closures created very tricky trading conditions for the FY18 trading year, characterized by significant discounting, stock clearance and distressed retailing.

In addition to these changes, we have also seen Amazon enter the market in Australia.

Changes in the market creates opportunity

With the changes in competition that has occurred across Australia, a significant opportunity has now presented itself for Baby Bunting to increase its market share. We estimate that this opportunity equates to around $138 million dollars across Australia, the bulk of which comes from the closure of the Toys R Us / Babies R Us network.

Market share growth strategy

As Ian has already stated, the Company's strategy to grow market share is based on:

- a continued investment in digital to deliver the best possible customer experience across all channels;
- growing our revenues from existing stores;
- opening new stores in new markets;
- all in conjunction with EBITDA margin improvement achieved through operating leverage and improvement in gross margin.

As demonstrated by the full year performance, we are prepared to respond actively to changes in market conditions to ensure that we continue to provide value for our customers.

To achieve market share growth and to build a stable platform for growth, we continue with our investments in systems, supply chain and logistics infrastructure, all backed by securing the right people to deliver on our strategy.

Online & digital progression

In terms of online and digital, we are making steady progress on the implementation of our new website replatform. This is set to initially launch at the end of the year. This new web platform will deliver a high level of engagement as we position the site to be more content-focused, whilst still offering up all the e-commerce functionality. We see this as a key investment to increase customer engagement and hence deliver further growth. The buying cycle for our consumers is to do a lot of research online before heading into a store. We believe the return for our investment in online will be increased online traffic, reduced bounce rates and higher conversion rates.

In terms of year to date performance, another key metric for our online sales is that click and collect transactions are now 50% of all online sales in those catchments where we also have a store. This yet again highlights how the performance of the online channel and stores is complementary.

One final point to note on digital is that we have invested in new team members who have been engaged to improve our search engine optimisation and digital marketing to improve conversion across all channels.

Investment in the customer experience

Customer experience is a very widely used term in retail today. So, what does this really mean at Baby Bunting? And what are we doing to develop the best relationship with our customers so as to achieve our vision of being the most loved baby retailer for every family, everywhere?

The journey starts by first listening to our team, and secondly listening to our customers. Over the last couple of months we have commissioned customer research to sharpen our focus on how to become the most loved baby retailer. Whilst customer advocacy is high with a current NPS of 72, our research has told us that we still have a significant opportunity in this area.

We have recently put our Store Management teams across the country through leadership training. This is a significant investment to improve the service in store. We have opened up Afterpay and ZipPay across stores and online. And we have just recently started to make further investments in technology with new in-store communication systems and hand held devices to improve operating efficiencies which will benefit our teams and, ultimately, our customers.

Some final points identified through our customer focus group research are that there is significant upside if we improve our loyalty program and that we can capture more market share by appealing to a broader spectrum of customer. There is also an opportunity to invest and modernise our brand.

This is a very exciting time for Baby Bunting.

Supply chain strategy update

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. That is right from when and where the product is sourced, through to the shelf or into the customers' hands.

Our long term aim is to have same day delivery for online orders for 90% of our customers. Key to this is the development of a store to door model which allows us to leverage our network of stores to deliver efficiently and cost effectively to our customers.

I am very pleased that with the opening of our 50th store in Hobart and with the relocation of our Cannington store in WA, we are going to be making great progress against this goal as we establish these stores as online fulfilment hubs servicing Tasmania and WA respectively. This will be a true differentiator from our competitors and, the online pure plays. Additional state based fulfilment hubs will follow in due course.

Our network of stores continues to play an increasingly important role in the fulfilment of click and collect orders. This offer resinates very well with the consumer where we can fulfil orders within a 3 hour period.

Other activities where significant progress has been made this financial year is in the area of transportation. We have moved our linehaul freight requirements to a new logistics provider. This change is delivering benefits not just in cost, but also in service levels. We have also concentrated on increasing capacity in our Dandenong DC which is also very positive.

Private label & exclusive products

Private label and exclusive products are an important part of our strategy and are currently on track to achieve 25% of total sales this year. We have a long term goal of making this category of product about 50% of sales. This will differentiate us from others in the market and deliver gross margin benefits.

I am really pleased that this area of our business, in particular the exclusive national branded products, continues to grow strongly.

We have also recruited resources to assist with product development and through the engagement of an agency, we will be working with them on the development of private label brands.

New stores update

I would like to update you on our new store roll-out.

- So far this financial year, we have opened stores at Toowoomba in Queensland, at Chatswood in New South Wales and at Hobart. Hobart was our first store in Tasmania and our 50th store nationwide – which is a real milestone.

- As a significant strategic move, we will be opening our first shopping centre store at Chadstone Shopping Centre in Victoria. Chadstone is one of the largest shopping centres in the southern hemisphere.

- At the full year results presentation in August, we highlighted that we were in negotiations with landlords concerning some former Toys R Us / Babies R Us sites. I am happy to report that we have secured the number one and number two stores from the Babies R Us network. These stores are at Bankstown in Sydney and at Cannington in Perth. We had an existing store at Cannington. We are relocating that store to the new and improved location.

- We are still in negotiations in respect to a further two former stores from the Toys R Us / Babies R Us network.

Chadstone Shopping Centre

In December we unveil our first shopping centre store concept. The store will open in Chadstone Shopping Centre in south eastern Melbourne. It will have all the attributes of our current fleet of stores, such as parcel pick up, dedicated parking, car seat fitting bays, parenting and feeding rooms among other things.

We will be able to deliver a customer experience appropriate for a premier shopping centre such as Chadstone. We are using our existing fixture set, with a new look to deliver the merchandise intensity and sales volumes. We will be adding to the customer experience through new experiential features including digital mediums and showcasing a number of leading nursery brands.

This new store will be an ideal opportunity for us to better understand the future shopping centre opportunity. It will give us greater insights on consumer behaviour and the potential range expansion opportunities that a shopping centre provides.

Outlook

After around 20 weeks of trading, we now forecast that pro forma EBITDA for FY19 will be in the range of $25 million to $27 million, excluding employee equity expenses.

We continue to pursue our long term goal of 10% EBITDA margin as we execute on our strategic plans.

I have been very pleased by our comparable sales performance of 9.6% for the year to date up to 15 November 2018. Our market share has also grown, with a total sales increasing by 17% relative to the prior comparable period.

Importantly, we have experienced positive gross margin performance when compared to the prior year and we are on track to achieve our guidance of gross margins exceeding 34% for the year. Gross margin performance has not come at the expense of providing the consumer great value every day and every visit.

Our online channel continues to grow, with click and collect sales performing particularly well.

We are experiencing growth in the sales of our private label and exclusive products and we are on track to meet our target of 25% of sales this financial year.

We anticipate opening a further two new stores prior to Christmas, bringing our store network to 52 stores: Chadstone our first shopping centre format and at Bankstown in the former Toys R Us / Babies R Us location. We will also complete the relocation of our Cannington store to the former Toys R Us / Babies R Us store in Cannington, a far superior location. We are well progressed with an opportunity in Shellharbour near Wollongong and we are in negotiations on another two former Toys R Us / Babies R Us locations.

This is a very exciting time for Baby Bunting as we consolidate our position as Australia's largest specialty baby goods retailer.

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

Thank you.