16 August 2019

Baby Bunting Group Limited (ASX: BBN)

FY2019 Full Year Results

BABY BUNTING DELIVERS IN ITS 40TH YEAR. GROWTH TO CONTINUE

Statutory results

- **Total sales of $368.0 million, up 21%; EBITDA of $24.1 million, up 37.4%; Net profit after tax of $12.4 million, up 43.3%**

Pro forma[1] results (excluding impact of week 53, equity expenses and one-off project expenses)

- **Total sales of $362.3 million, up 19% on prior corresponding 52 week period (pcpp)**
- **Strong comparable store sales growth of 8.7%**
- **Gross margin up 190 bps to 35.0% (pcp). Gross profit income up 25.6% at $126.7 million**
- **Above guidance pro forma EBITDA of $27.1 million, up 45.9% (pcp). Pro forma NPAT of $15.1 million, up 58.2% (pcp)**
- **Return on average funds employed (ROFE[2]) of 23.5%**
- **Final dividend of 5.1 cents per share bringing total FY19 dividend to 8.4 cents (FY18: 5.3 cents)**
- **FY20 pro forma NPAT expected to be in the range of $20 million to $22 million**

Baby Bunting Group Limited (Baby Bunting or the Company) today reported net profit after tax for the financial year ended 30 June 2019 of $12.4 million. On a pro forma basis, net profit after tax was $15.1 million, an increase of 58.2% on the prior 52 week period.

"*I am very proud of our performance for the year. We have had an excellent year that has consolidated our position as the go to destination for baby goods in Australia",* Baby Bunting's CEO and Managing Director, Matt Spencer said.

"We pursued a number of actions to grow market share and profitability during FY19, including a continued focus on customer service, capitalising on available market share opportunities, securing prime sites for our store network, stabilising gross margin without compromising value, expanding private label and exclusive products and investing in our people and systems to support growth.

"We did what we set out to do. We focussed on providing great service and value to our customers and achieved improved sales and gross margin performance and strong earnings and profit growth.

"Baby Bunting was established in 1979 and has been trusted by Australian families for 40 years. In the years ahead we remain absolutely committed to continuing to grow and improve our service for future generations of parents and parents-to-be."

1. Pro forma financial results have been calculated to exclude the non-cash impact of employee equity incentive expenses. Pro forma financial results also exclude revenues and expenses incurred during the 53rd week of the period to enable comparisons with prior 52 week periods, acquisition related expenses for four car seat installation businesses acquired, and non-recurring project related expenses associated with significant projects related to business review and improvement, business transformation and brand modernisation. Refer to page 32 of the FY19 Full Year Results Presentation for a reconciliation between statutory and pro forma financial results. 2. 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.

Business performance

Baby Bunting's pro forma EBITDA was $27.1 million, up 45.9% on the prior 52 week period.

This was slightly above the Company's pro forma guidance of $25.0 million to $27.0 million. On a statutory basis, EBITDA was $24.1 million, up 37.4% on the prior year period.

Sales and gross margin, private label and exclusive products

Market share continues to grow strongly. On a pro forma 52 week basis, total sales were up 19.0% to $362.3 million. Comparable store sales growth was strong and finished the year at 8.7% up on the comparable trading period.

Pro forma gross profit increased 25.6% to be $126.7 million. Gross profit as a percentage of sales increased 190 basis points (bps) to 35.0% (35.3% in 2H FY19).

This gross profit margin expansion has been driven by new product range improvements and improved importation arrangements with our supplier partners. It is also supported by the continuing expansion of private label and exclusive products, which finished the year at 27.6% of total pro forma sales (an increase of 56.5% on the prior 52 week period).

The Company is making significant inroads on its long term target of 50% of sales coming from private label and exclusive products. The Company is targeting 35% in the current financial year.

Digital and online

Online continues to be the Company's largest trading unit with online sales being 11.8% of total sales for the 52 week period, an increase of 46% against the prior corresponding period (where online sales were 9.5% of total sales). Click and collect sales grew 55% in the period and in areas where Baby Bunting has a store click and collect sales now represent around 50% of online sales in that trade catchment. Again, this demonstrates the role that stores and online can play in driving complementary sales growth.

Operating expenses

Pro forma cost of doing business for the full year was $99.5 million, representing 27.5% of sales and an increase of 50 bps on the prior corresponding period. Overheads (excluding employee equity incentive expenses) were 5.7% of sales, reflecting investment in new Support Office roles to support growth and annualising of roles from the prior year. In the second half, there was cost of doing business leverage of 30 bps with 2H store expenses leverage of 60 bps.

Store roll-out

Baby Bunting opened six new stores during the year, bringing the total number of stores to 53. New stores were opened at Toowoomba (Qld), Chatswood (NSW), Hobart (Tas), Chadstone (Vic), Bankstown (NSW) and Shellharbour (NSW). Additionally, the existing Cannington (WA) store was relocated to a more prominent location in Cannington at the end of its lease. The new Cannington and Bankstown sites were some of the top performing Toys R Us / Babies R Us locations.

Chadstone represented the first shopping centre format store and its opening has provided us with insights into the design and operation of a shopping centre format store. We plan to deploy further shopping centre stores, with our next store opening at Westfield Doncaster later in the year.

Baby on Board – expanded services strategy

During the year, Baby Bunting acquired the car seat installation businesses of some of our installation partners in Victoria, New South Wales, Queensland and South Australia. These acquisitions enabled the Company to bring these service offerings in-house – under the name "Baby on Board" – and to expand and standardise the installation services across the Baby Bunting store network.

The next stage of the services strategy is car seat and capsule hire. This service will provide parents with the option to hire a car seat or capsule on either a long-term or short-term (ie holiday) basis.

The goal is to grow a services business that builds loyalty and engagement with existing customers, differentiates Baby Bunting from its competitors and expands into new channels that will diversify and grow the revenue base.

Transformational growth projects

Baby Bunting continues to make significant investment in transformational projects to grow profitability and support future growth. Projects currently in the pipeline now and over the next 2 years include website and e-commerce re-platform, online fulfilment hubs, expanded services (installation and hire) offering, loyalty program, core systems implementation and supply chain improvements.

Dividend

The Board has announced a final fully franked dividend of 5.1 cents per share, taking total dividends for the year to 8.4 cents per share (equivalent to approximately 70% of the Company's pro forma NPAT) (FY18: 5.3 cents per share). The record date is Friday, 30 August 2019 and the dividend payment date is Friday, 13 September 2019.

Outlook

In commenting on the outlook, Matt Spencer said "*There may be some caution about general retail conditions in the year ahead. However, our industry is somewhat less discretionary than the broader retail sector and we believe FY20 will be another year of solid growth.*"

Year to date trading (to 9 August 2019) has seen comparable store sales growth of 5.2%.

Pro forma[3] EBITDA (as measured under the old lease accounting standards[4]), is expected to be in the range of $34 million to $37 million, representing growth of 25% to 36%. Pro forma NPAT is expected to be in the range of $20 million to $22 million.

This guidance assumes comparable store sales growth to be mid-single digits for the year (noting that comparable store sales growth for FY19 was 8.7%), gross profit margin to exceed 36% in FY20 and the opening of 5 new stores (Doncaster to open in October 2019, with a further two stores committed for 1H FY20).

This outlook is provided subject to the important notice regarding forward looking statements in the Full Year Results Presentation released to ASX at the same time as this update.

Results presentation and call

A presentation and a discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.15am (AEST)** on **Friday, 16 August 2019**.

To access the call, you must register promptly by 9.15am (AEST) using the details below:

Australian guests	Dial: 1800 725 000
International guests	Dial: +61 2 8373 3610
Conference ID	217 2077#

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

4. 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.