16 February 2018

Baby Bunting Group Limited (ASX: BBN)

FY2018 Half Year Results
CLEAR LEADER IN SECTOR CONSOLIDATION

- **Sales of $148.3 million, up 9.8% on the prior corresponding period (pcp)**
- **Comparable store sales* for 1H declined by 1.7%, with price deflation of 4.3%. Sales momentum is building, as first six weeks of 2H have seen comparable store sales growth of 4.5%**
- **Pro forma** EBITDA was $8.4 million (down 19.2%) and pro forma NPAT was $4.2 million (down 27.2% on pcp)**
- **Gross margin of 33.2% – ahead of previous guidance. Recent trend of gross margin improvement expected to continue in 2H FY18**
- **Return on average funds employed (ROFE†) of 18.9%**
- **Fully franked dividend of 2.8 cents per share (100% of 1H EPS)**
- **FY18 EBITDA guidance (unchanged) expected to be around $23 million, excluding employee equity incentive expenses**

Baby Bunting Group Limited (Baby Bunting or the Company) today reported net profit after tax for the 27 weeks to 31 December 2017 of $3.5 million. On a pro forma basis, net profit after tax was $4.2 million.

“We retain market leadership in the sector post the consolidation that has occurred in the first half of FY18. We are confident that our performance is improving as we move into the second half”, Baby Bunting’s CEO and Managing Director, Matt Spencer said.

“As flagged at the November AGM, the baby goods sector has been seeing consolidation and aggressive discounting as some retailers exited the market and cleared stock while others sought to maintain market share. Our pricing moved to meet these developments. Our customers can be assured that Baby Bunting provides excellent value and we won’t be beaten on price.”

Matt Spencer continued: “Baby Bunting saw sales transaction growth of 14.2%, which converted into total sales growth of 9.8%. While our market share continues to grow, the impact of price deflation and some supply issues in the car seat, baby carrier and toy categories during the first half, constrained our earnings growth.”

“We are seeing some signs that market conditions are stabilising. The recent trend of gross margin improvement is expected to continue into the second half as a result of some stabilisation of competition

** Comparable store sales measured as at 1 January 2018 reflects like for like trading days against the prior corresponding period which ended on 1 January 2017. ** Pro forma financial results have been calculated to exclude the non-cash impact of employee equity incentive expenses. Refer to page 26 of the 1H FY18 Investor Presentation for a reconciliation between statutory and pro forma financial results. †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.*

Baby Bunting Group Limited ABN 58 128 533 693
955 Taylors Road, Dandenong South, VIC 3175
Telephone: +61 3 8795 8100
Facsimile: +61 3 8795 8105
Internet: http://www.babybuntingcorporate.com.au

as well as internal initiatives that are producing results, including increasing exclusive products in core categories, increasing FOB direct importing and improving trading terms with our supply partners."

"Baby Bunting is well placed for the future, notwithstanding what may be some short-term financial impacts. We continue to grow market share, we are continuing with our store roll-out program and remain focused on achieving EBITDA margin improvement by gross margin expansion and cost of doing business leverage", said Matt Spencer.

Business performance

Baby Bunting's pro forma EBITDA was $8.4 million, down 19.2% on the prior corresponding 27 week period (1H FY17: $10.4 million). On a statutory basis first half EBITDA was $7.6 million (1H FY17: $9.8 million).

Sales

Total sales for 1H FY17 grew by 9.8% and total transactions grew 14.2% (against the prior corresponding period) with comparable stores seeing transaction growth of 2.3%.

The nine stores not in the comparable store sales measure (which includes new stores) are, overall, trading above expectations. In addition, regional stores have been trading well. This is important as around 50% of future stores will be in regional areas.

Total comparable store sales for the half declined 1.7% against the prior corresponding trading period. Late November to mid-December were subdued. However, the Company had a strong Boxing Day and Storktake sales period which has continued into the second half. Comparable store sales growth for the first 6 weeks of 2H FY18 is 4.5% with year-to-date (to 11 February 2018) comparable store sales at -0.5%.

Competitor store closures and aggressive discounting created near term price deflation, affecting both total sales growth and comparable store sales growth.

Comparable store sales growth has also been affected by other factors. In Adelaide, sales growth of 22% was achieved in the first half against the prior corresponding period. Baby Bunting recently opened two new stores in Adelaide (Mile End (March 2017) and Munno Para (July 2017)). This doubled the Adelaide store network. There has been some sales redirection occurring in Adelaide, which has had the effect of reducing the Company's total comparable store sales growth by 1.9%. Excluding this effect, the Company's underlying comparable store sales growth was 0.2%.

In commenting on this Matt Spencer said: "The new Adelaide stores are in excellent locations to meet existing high demand and to generally improve customer experience in Adelaide. As we pass the anniversary of the opening of the two new Adelaide stores, this effect on comparable store sales will diminish. While there has been a short term impact on comparable store sales growth, we are seeing the benefits in terms of market share growth."

There were also supply issues in the car seat, baby carrier and toy categories, which negatively impacted comparable store sales in the half. These have now been resolved.

Private Label and Exclusive Products and "Best Buys"

There has been strong sales growth in key strategic focus areas. Private Label and Exclusive Products made up 18.4% of total sales in 1H FY18. This is growth of 83% over the prior corresponding period.

Baby Bunting's "Best Buys" program (containing products at everyday low prices) expanded across key categories with 67% increase in units sold (ie 4Baby and national brands) and 53% growth in sales from 1H FY17.

Gross margin

Gross profit income was up 5.7% to finish at $49.2 million. Gross profit margin was 33.2%, a decline of 127 bps from the prior corresponding period. This is around 40 basis points ahead of the level anticipated for the first half at the time the Company provided its AGM trading update. Key initiatives of increasing exclusives in core categories, increasing FOB direct importing and improving trading terms with supplier partners are having a positive effect on gross margin. The recent trend of gross profit margin improvement is expected to continue. We now expect that gross profit margin percentage will return to FY17 levels by end of Q3 FY18.

Online

Online continues to be the Company's largest trading unit in the network. Online sales accounted for 8.4% of total sales for the period, an increase of 56% of sales against the prior corresponding period (where online sales accounted for 5.9% of total sales).

"Our ongoing investment in digital is delivering. We remain committed to our digital strategy of improving and enhancing customer experience. Our investment in Customer Relationship Management and marketing automation is building a base upon which we can improve our engagement with the customer", said Matt Spencer. "In the coming months we will also be launching our new gift registry app which will facilitate a better experience for our customers for milestone events and baby showers. The app will put greater convenience in the hands of our customers."

Operating expenses

Cost of doing business for the half was $40.8 million, representing 27.5% of sales (1H FY17: 26.8%).

This result reflected primarily an investment in new store costs of $3.2 million (including the annualising costs of 6 stores opened in FY17).

Matt Spencer: "Our investment in new stores is growing our market share. When we invest in stores, initially we see some relative expense increases in advance of those stores maturing. We remain very focused on managing our costs appropriately. Effective cost management resulted in comparable store expense increases of only $0.3 million or 1% on the prior corresponding period. We continue to believe that cost of doing business leverage will be achieved as we grow our store network and as that network matures."

Overheads (excluding employee equity incentive expenses) have remained constant against 1H FY17 at 5.3%.

Store roll-out

There were 44 Baby Bunting stores at 31 December 2017, with Munno Para (SA) opened in July 2017 and Albury (NSW) opened in December 2017. In January 2018, Aspley (Qld) opened in Brisbane. Albury, the Company's third regional store is trading very well and the Company remains committed to continuing to open regional stores.

Baby Bunting expects to open a further 3 stores in 2H FY18 (6 stores in total for FY18). Rutherford (NSW) will open in late February, Browns Plains (Qld) in March and a further Queensland regional store is expected to open later in the second half. Chatswood (NSW) and a further store in Melbourne are now expected to open in early 1H FY19.

Baby Bunting remains committed to growing its store network throughout Australia based on its rigorous selection criteria, including having regard to local market size, store economics and relevant market conditions. A strong physical store network is a key component of the Company's strategy to grow market share.

Dividend

The Board has announced an interim fully franked dividend of 2.8 cents per share (being 100% of 1H earnings per share).

The record date for the dividend is Friday, 2 March 2018 to be paid on Friday, 16 March 2018.

Outlook

The Company's expectation for its full year earnings remains unchanged from that announced in November 2017. FY18 EBITDA (excluding employee equity incentive expenses) is expected to be around $23 million.

2H FY18 comparable store sales growth is 4.5% (to 11 February 2018). We expect comparable store sales growth to continue around this level for the remainder of the half.

We expect to see the recent trend of gross margin improvement to continue into the second half.

Further to our previous guidance, on a full year basis, our investment program continues with around $3.5 million of capital for infrastructure and capability to deliver growth, plus investment in new stores and refurbishments. We also expect investment in operational expenditure for the full year to be around $1.5 million.

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

Investor conference call

A presentation and a discussion will be hosted by Matt Spencer (CEO & Managing Director) and Darin Hoekman (CFO) at **9.30am (AEST)** on **Friday, 16 February 2018**.

To access the call, you must register promptly by 9.30am (AEST) using the details below:

Australian guests	Dial: 1800 725 000
International guests	Dial: +61 2 8373 3610
Conference ID	4689 956#

Further information and enquiries

Darin Hoekman
Chief Financial Officer
email: darinh@babybunting.com.au
Phone: 03 8795 8100