

Baby Bunting Group

Half Year Ended 27 December 2015

Results Presentation

12 February 2016

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& Managing Director

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This document contains certain forward looking statements and comments about future events, including Baby Bunting's expectations about the performance of its business. Forward looking statements can generally be identified by the use of forward looking words such as 'expect', 'anticipate', 'likely', 'intend', 'should', 'could', 'may', 'predict', 'plan', 'propose', 'will', 'believe', 'forecast', 'estimate', 'target' and other similar expressions within the meaning of securities laws or applicable jurisdictions. Indications of, and guidance on, future earnings or financial position or performance are also forward looking statements.

Forward looking statements involve inherent risks and uncertainties, both general and specific, and there is a risk that such predictions, forecasts, projections and other forward looking statements will not be achieved. The Baby Bunting IPO Prospectus lodged with ASIC on 29 September 2015 (Prospectus) contains details of the number of material risks associated with an investment in Baby Bunting. Forward looking statements are provided as a general guide only, and should not be relied on as an indication or guarantee of future performance. Forward looking statements involve known and unknown risks, uncertainty and other factors which can cause Baby Bunting's actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements and many of these factors are outside the control of Baby Bunting. As such, undue reliance should not be placed on any forward looking statement. Past performance is not necessarily a guide to future performance and no representation or warranty is made by any person as to the likelihood of achievement or reasonableness of promise, representation, warranty or guarantee as to the past, present or the future performance of Baby Bunting.

Pro forma financial information

Baby Bunting uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are referred to as non-IFRS financial information.

Baby Bunting considers that this non-IFRS financial information is important to assist in evaluating Baby Bunting's performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. In particular, this information is important for comparative purposes with pro forma information in Baby Bunting's IPO Prospectus.

For a reconciliation of the non-IFRS financial information contained in this presentation to IFRS-compliant comparative information, refer to the Appendix to this presentation.

All dollar values are in Australian dollars (A\$) unless otherwise stated.

Introduction to Baby Bunting

Baby Bunting is Australia's largest specialty retailer of baby goods, aiming to provide customers with the widest range of products, high levels of service and low prices every day

- Founded in 1979, Baby Bunting is **Australia's largest specialty baby goods retailer**
- Operating 35 stores across Australia, with **the leading specialty baby goods website by number of visits**
- Target market is parents-to-be, parents, friends and family, purchasing products for the **0 to 3 years age group**
- Principal product categories include **prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester and associated accessories**
- Successful **ASX listing** in October 2015



Agenda

- 1 Results highlights
- 2 Industry overview
- 3 Business overview
- 4 Growth strategy
- 5 Financial information
- 6 Outlook
- 7 Appendix – pro forma reconciliation



1.

Results
highlights

1H FY2016 Results Highlights

1 TRADING	<ul style="list-style-type: none"> Sales of \$108.2 million, up 30.3% on the prior corresponding period Comparable store sales growth of 9.2% Gross margin improvement of 48bp
2 EARNINGS⁽¹⁾	<ul style="list-style-type: none"> Cost of doing business (pro forma) improved by 50bp EBITDA (pro forma) of \$7.8 million, up 50.6% on the prior corresponding period NPAT (pro forma) of \$4.3 million, up 54.7% on the prior corresponding period
3 CAPITAL STRUCTURE	<ul style="list-style-type: none"> Capital expenditure of \$3.7 million, including investment in multiple IT projects to support future growth Operating cash flow reflects a \$4.0 million investment in inventory to support post-Christmas sales events Cash at 27 December 2015 of \$7.2 million, plus \$13.0m undrawn borrowing facility
4 GROWTH	<ul style="list-style-type: none"> 4 new stores opened in Booval, North Lakes and Burleigh Waters in QLD, and Campbelltown in NSW Launched new website and Click-and-Collect functionality Multiple business efficiency and IT projects delivered
5 FY2016 OUTLOOK	<ul style="list-style-type: none"> Sales expected to be in the range of \$225 to \$235 million EBITDA (pro forma) expected to be in the range of \$16.5 - 18.5 million 1 to 2 new stores expected to be opened in 2H FY2016

Note:

1. Refer to page 31 for a reconciliation of the non-IFRS financial information contained in this presentation to the IFRS-compliant information



2.

Industry overview

GIFT REGISTRY

Our baby gift registry is a great way to help friends and family choose the perfect gift for your baby shower, birthday, christening or any special event.

Ask a team member for assistance on how to get started.

PARENTS ROOM

FURNITURE

ALL THE BEST BRANDS AT LOW PRICES

EXCLUSIVE PRODUCTS & BRANDS

GIFT REGISTRY

Industry Overview

Baby Bunting's estimated addressable market is ~\$2.3bn pa

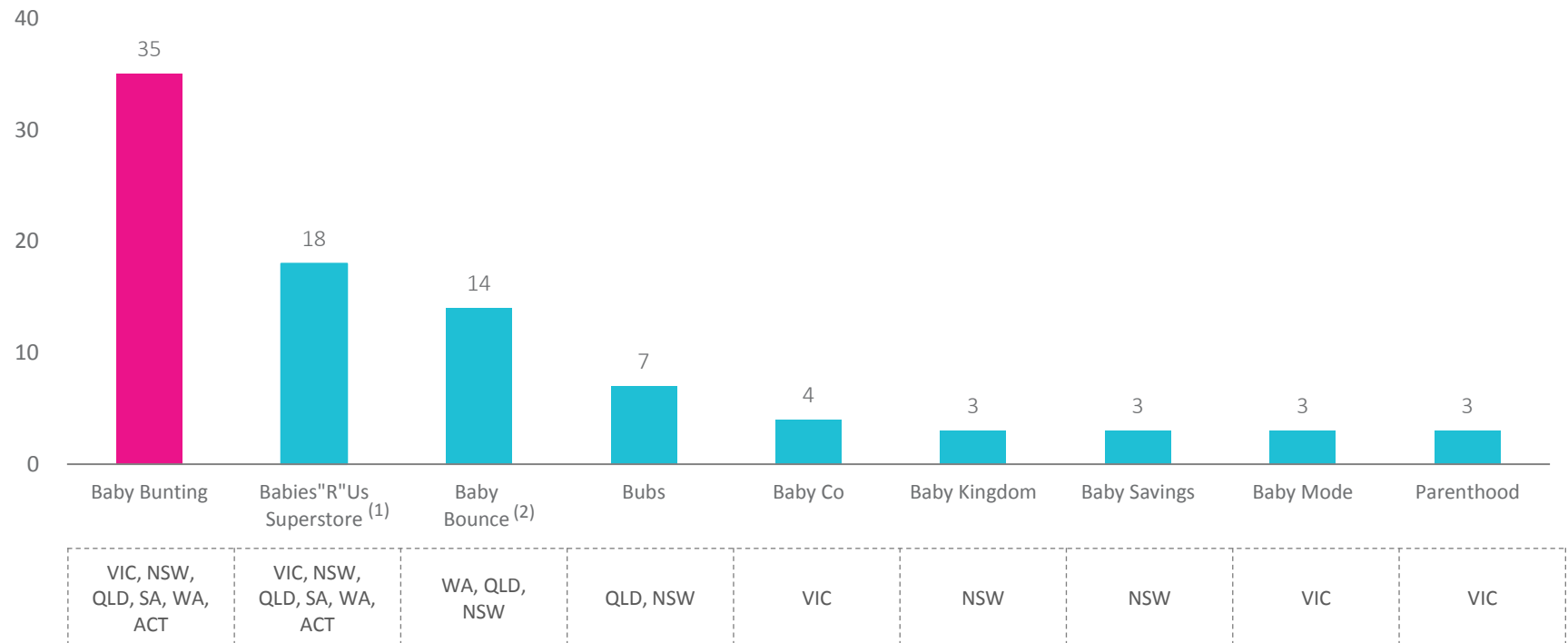
Changing competitive landscape

Large number of small, specialty players

Strict Australian mandatory product safety standards provide barriers to entry

SPECIALTY BABY GOODS RETAILERS IN AUSTRALIA

Number of Stores



Note:

1. Toys"R"Us has an additional 17 stores that sell a limited range of baby goods
2. Baby Bounce purchased 14 of 21 stores of the retail chain My Baby Warehouse (MBW). MBW went into administration in Dec-15



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BONDS

gro

BABYWEAR

3.

Business
overview

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Drivers of Competitive Advantage



Baby Bunting's Store Network

35 stores across Australia, with significant roll-out potential



Queensland

Helensvale	Macgregor
Kawana	Booval (29 Jul)
Fortitude Valley	North Lakes (18 Sep)
Townsville	Burleigh Waters (14 Nov)

New South Wales and ACT

Penrith	Moore Park
Warners Bay	West Gosford
Taren Point	Campbelltown (19 Dec)
Auburn	Fyshwick (ACT)

Victoria

Hawthorn	Narre Warren	Geelong
East Bentleigh	Ringwood	Hoppers Crossing
Frankston	Thomastown	Maribyrnong
Taylors Lakes	Ballarat	Bendigo

South Australia

Gepps Cross	Melrose Park
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Western Australia

Cannington	Midland
Myaree	Osborne Park
Joondalup	

Store Experience

Stores are consistent in branding, range, operations and customer service

- ✓ **The widest range** of products with over +6,000 products
- ✓ **Price match guarantee** and continued investment in value for the customer
- ✓ **Increasing range of Private Label and Exclusive Products**
- ✓ **Services** include lay-by, car seat fitting, parenting room, in-store / online gift registry
- ✓ **Click & Collect**
- ✓ **Dedicated team** of knowledgeable staff to **service customers individual needs**
- ✓ **1,500 to 2,000 square metres** in bulky goods centres or at stand-alone sites with **parking and parcel pick up facilities**. **Regional store** format of **1,000 to 1,200 square meters** without compromising on range or service



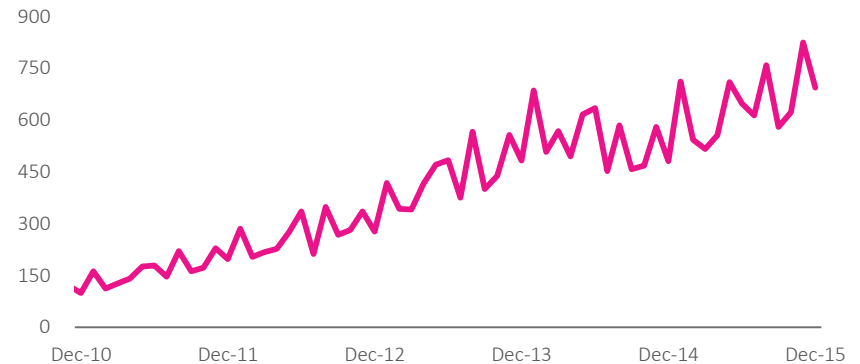
Evidence of strong customer loyalty in-store with a Net Promoter Score of ~40 ⁽¹⁾

Note:
1. NPS score based on a national customer survey conducted by the Company in early 2015 that included more than 15,000 responses. To calculate NPS, customers are categorised as "Promoters", "Passives" or "Detractors" based on how likely they would be to recommend Baby Bunting to a friend or colleague. The percentage of Detractors is then subtracted from the percentage of Promoters.

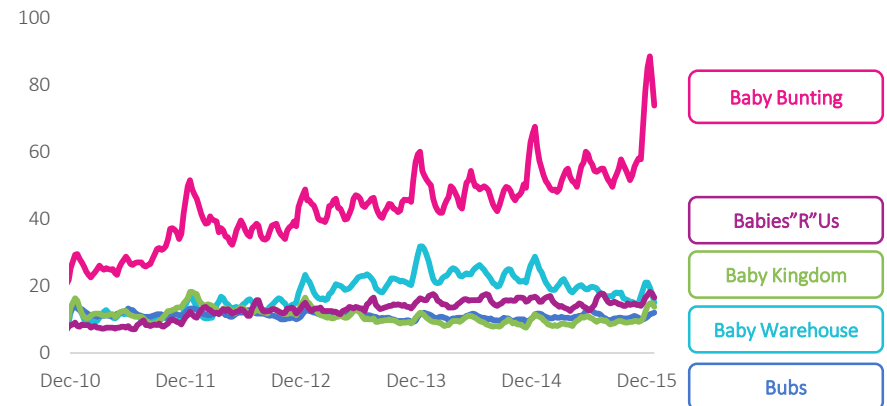
www.babybunting.com.au continues to evolve & grow as the leading specialty baby goods website

- **35% increase** in website **visits** (1H FY2016), and a **44% increase** for the month of December year-on-year
- **48% increase** in online **sales** on the prior comparable period
- **Range expansion** with ~10% **additional products** added on the prior comparable period
- **Implementation** of a new look website delivering an **enhanced online experience** and **product search capability**, and improved **educational content** for parents and parents to be
- **Click & Collect** phase 1 launched with a **strong uptake**

TOTAL WEBSITE SESSIONS BY MONTH (babybunting.com.au) ⁽¹⁾



GOOGLE TRENDS ⁽²⁾



Note:

1. Source: Baby Bunting. Measures total non-unique website sessions across all devices

2. Source: Google Trends for Australia only

Sales and Marketing Strategy

Baby Bunting's sales and marketing strategy delivering value to our customers every day

- **Integrated promotions** across traditional channels (catalogue, regional and pay TV, radio and print media), online (email, search and digital) as well as social media
- As at 27 December 2015:
 - **~115,000 Facebook followers** up from ~103,000 in December 2014
 - **~6,000 Instagram** and **~2,500 Twitter** followers
 - **~300,000 email addresses in the customer database**, up from ~203,000 in December 2014
- **~4.7 million catalogues** distributed at the last sales event (Boxing Day 2015)
- **Pricing Guarantee** providing value to our customers every day, every visit

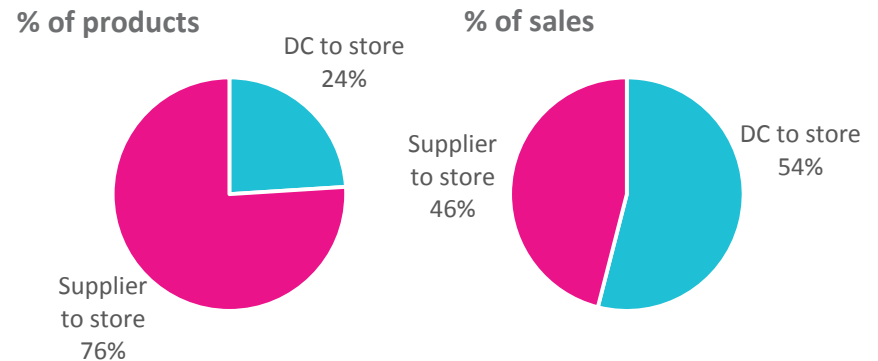


Logistics & Supply Chain

Continuous improvement in the Distribution Centre supporting the growth of the business

- **Implementation** of the “Paperless” **Warehouse Management System** driving efficiency
- **~1,600 products** held in the DC for store and online fulfilment and a further **~3,200 products held for online** fulfilment only
- **Supporting more stores** and **online sales growth** with improved **efficiency**
- **~24% of store products** are fulfilled from the DC and make up over **50% of store sales**
- **Expanded use of 3rd party logistics** improving stock flow and **customer experience**
- **Supply chain opportunities** identified from source to shelf with the aim of driving continuous improvement and capability

SUPPLY CHAIN IS CONTROLLED FOR KEY PRODUCTS (1H FY2016)

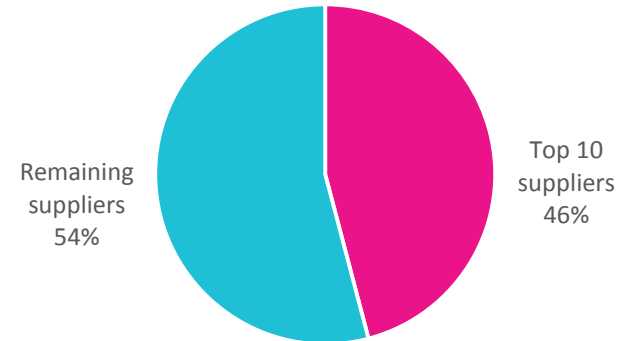


Supplier Relationships

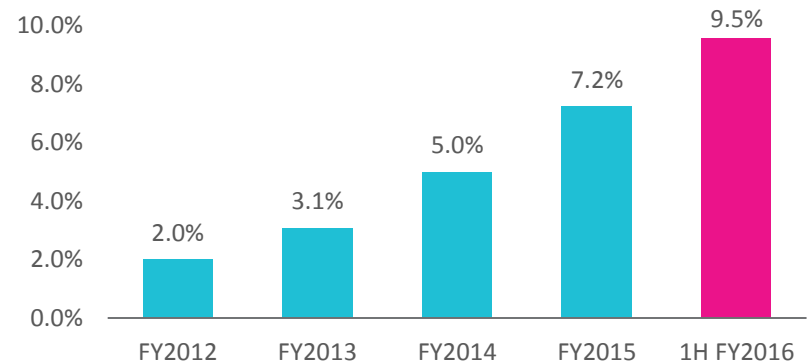
Strong growth in Private Label and Exclusive Products⁽¹⁾

- **Private Label and Exclusive Product** sales have grown from 7.2% of sales for FY2015 to **9.5% of sales in 1H FY2016**
- Network of **more than 260 suppliers** across third party brands, Private Label and Exclusive Products
- **Top 10 suppliers represent 46% of sales**
- **A focus of the business has been to increase the level of direct sourcing, Private Label and Exclusive Products**

SUPPLIER BREAKDOWN BY SALES (1H FY2016)



% OF SALES – PRIVATE LABEL AND EXCLUSIVE PRODUCTS



Notes:

1. Private Label and Exclusive Products includes products sold by Baby Bunting under its own 4Baby brand (ie private label products) as well as products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time

Building the Best Team

Continued focus on the development of our growing team

- **Implementation of a Learning Management System** underway
- **Building the talent pipeline**
 - Inductions, training & development
 - Succession planning and performance coaching
- **Training & development**
 - Recruit, train, retain
- **Alignment across the Team**
 - Significant Board and Executive Team share ownership
 - Approx. 400 employees participated in the Employee Share Gift Offer as part of the IPO
 - Over 100 staff purchased shares under the priority offer as part of the IPO
- **Culture**
 - Customer focused
 - Family values based business
 - Equal opportunity and Code of Conduct

BREAKDOWN OF EMPLOYEES (including casuals)

FUNCTION	Dec 2014	Jun 2015	Dec 2015
Stores	499	550	644
Logistics	19	19	19
Support Office	44	46	55
TOTAL	562	615	718





4.

Growth
strategy

Growth Priorities

Multiple drivers of organic growth

1

Growth from existing stores and online

- 46% of stores are less than 3 years old (at 27 December 2015)
- Multiple new initiatives to improve customer experience
- Replicating Victorian and South Australian brand awareness nationally

2

Growth from new store roll-out

- Network plan of 70+ identified trade areas with a target of 4 to 8 new store openings each year

3

EBITDA margin improvement

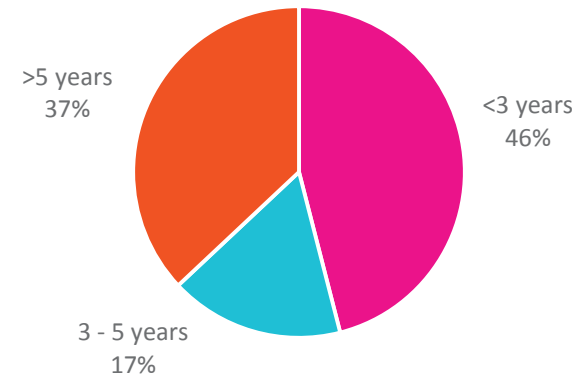
- Drive further gross margin expansion by increases in scale, improving sourcing options and managing product mix
- Leverage significant investment made in the Support Office and Distribution Centre

Growth from Existing Stores and Online

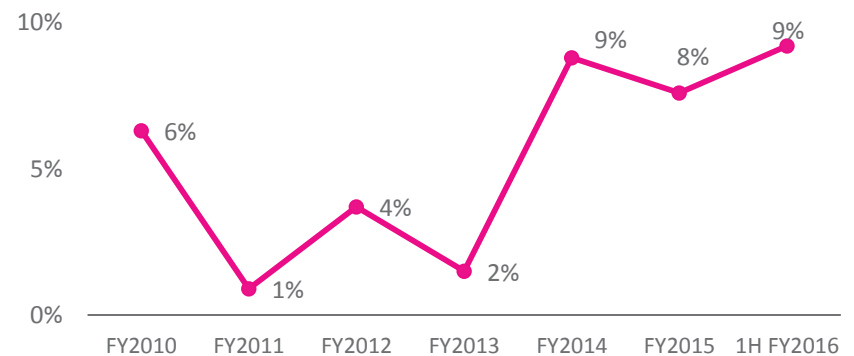
Strong 1H FY2016 comparable store sales growth¹ of 9.2%

- **Comparable store sales growth** driven by the maturing of “new” stores (at 27 December 2015, 46% of stores were less than 3 years old)
- Average comparable store sales growth of **5.4% pa since June 2010**
- **Focused strategies** to continue comparable store sales growth include:
 - **Growing brand awareness** in underpenetrated regions
 - Investments in **online capabilities**
 - **Click & Collect** functionality
 - Continue to improve **in-stock** position
 - Continued investment in **training and in-store support**
 - Introduction of customer focussed **technology**

STORE MATURITY PROFILE AT 27 DECEMBER 2015 (YEARS OPENED)



COMPARABLE STORE SALES GROWTH (%) ⁽¹⁾



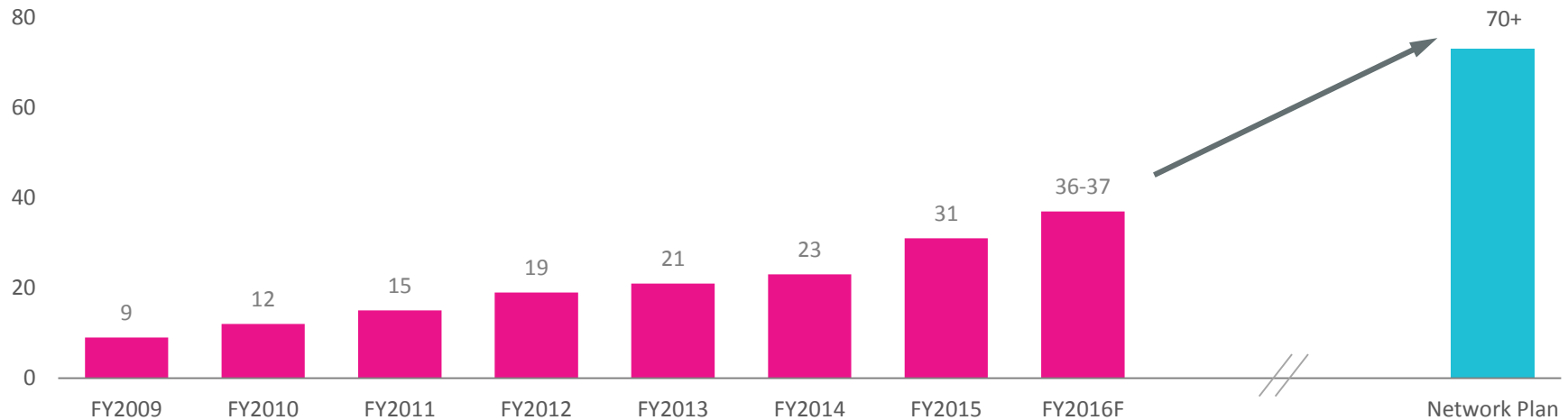
Note:

1. Refer to Glossary for a definition of comparable store sales growth

Growth from New Store Roll-Out

4 new stores opened in 1H FY2016, 1-2 more planned for 2H FY2016

NUMBER OF STORES



- Expect to **open 5-6 new stores** in FY2016 (compared to prospectus forecast of 5 new stores)
- **Pipeline** of new store opportunities has been identified for FY2017
- Target **4 to 8 new store** openings each year
- 70+ trade areas identified based on demographic, location and competition parameters, ~40% of remaining sites are in regional locations (population < 200,000)
- **2 Regional stores** opened in Q4 FY2015 are trading inline with expectations

Margin Improvement

Gross margin improvement across all key categories and operating leverage achieved

Gross Margin Improvement

- Gross margin improvement of 48bps in 1H FY2016 to 34.8%, from 34.3% in 1HFY2015
- Driven by sales and margin growth in all key categories
- Product range now includes Baby Formula (with sales commencing in December 2015)
- Continued catalogue and promotional support
- Product mix

Private Label and Exclusive Products ⁽¹⁾

- Further expansion of our 4Baby range planned for 2H FY2016
- Private Label and Exclusive Products represented 9.5% of sales in 1H FY2016
- Expect Private Label and Exclusive Products to account for a growing share of sales over time

Leverage Investment in Support Office and Distribution Centre

- Cost of doing business (pro forma) improvement of 50bps in 1H FY2016 to 27.5%, from 28.0% in 1H FY2015
- Overhead leverage in Support Office and Distribution Centre expenses has been achieved despite an increased investment year-on-year (\$5.1 million to \$6.2 million on a pro forma basis)
- Expect continued leverage on this investment in future years, so that Support Office and Distribution Centre expenses grow slower than sales



Note:

1. Private Label and Exclusive Products includes products sold by Baby Bunting under its own 4Baby brand (ie private label products) as well as products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time



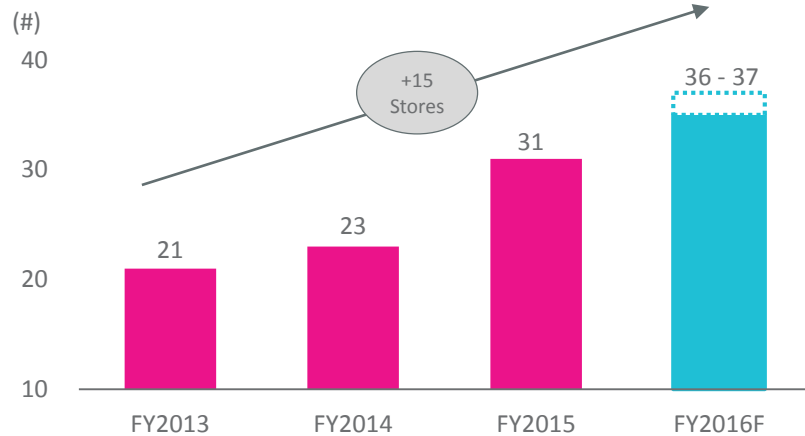
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Financial
information

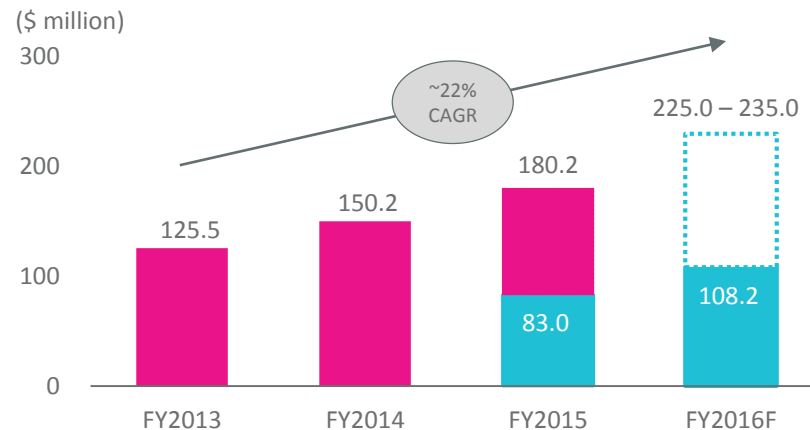
Strong Financial Track Record

1H FY2016 sales growth of +30% and pro forma EBITDA growth of +50%

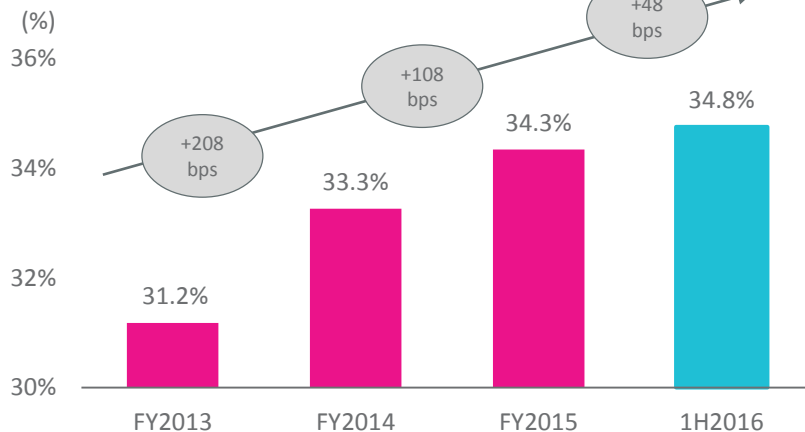
STORES



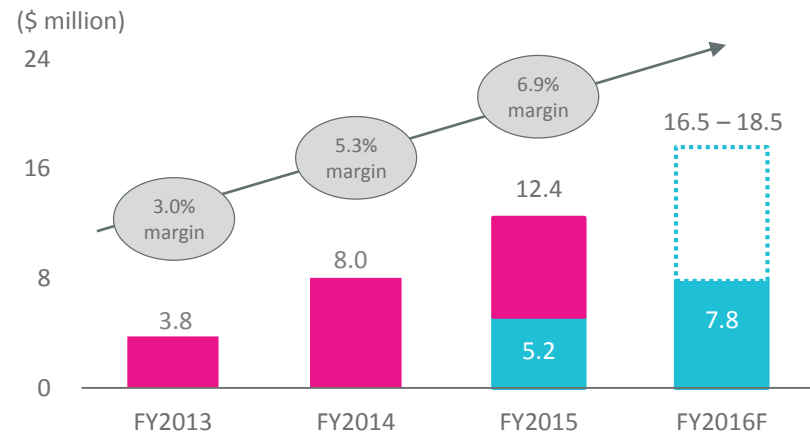
SALES



GROSS MARGIN



PRO FORMA EBITDA



Summary Pro Forma Income Statement

Pro forma statement of profit or loss

	Pro Forma Actual H1 FY16	Pro Forma Actual H1 FY15	Change
\$ million			
Sales	108.2	83.0	30.3%
Cost of sales	(70.6)	(54.6)	
Gross Profit	37.6	28.5	32.1%
<i>Gross Profit Margin</i>	34.8%	34.3%	
Cost of doing business	(29.8)	(23.3)	
<i>Cost of doing business % to sales</i>	27.5%	28.0%	
EBITDA	7.8	5.2	50.6%
<i>EBITDA margin</i>	7.2%	6.2%	
Depreciation and amortisation	(1.5)	(1.1)	
EBIT	6.3	4.1	54.2%
<i>EBIT margin</i>	5.8%	4.9%	
Net finance costs	(0.2)	(0.1)	
Profit before tax	6.1	4.0	54.7%
Tax	(1.8)	(1.2)	
Net profit after tax	4.3	2.8	54.7%
<i>Net profit after tax margin</i>	4.0%	3.3%	

Financial highlights

- **Total sales of \$108.2 million, up 30.3%**
 - Comparable store sales growth of 9.2%
- **Gross margin of 34.8%, up 48bp on 1H FY2015**
 - Margin growth in all key categories
- **Pro forma EBITDA of \$7.8 million, up 50.6%**
- **Cost of doing business \$29.8 million**
 - 50 bps leverage achieved
 - New store costs of \$5.4 million (including the annualising costs of 8 stores opened in FY2015);
 - Software licences for warehouse management system, Business Intelligence tool and moving to a hosted IT and communications environment; and
 - Annualising support office roles added in the second half of FY2015

Balance Sheet

Statement of financial position

	Statutory 27-Dec-15	Statutory 28-Jun-15
\$ million		
Cash and cash equivalents	7.2	3.6
Inventories	44.3	35.5
Plant and equipment	17.1	14.9
Goodwill	44.2	44.2
Other Assets	10.7	8.2
Total Assets	123.3	106.3
Payables	24.4	19.6
Borrowings	7.0	8.0
Provisions	4.9	4.4
Income Tax Payable	0.6	2.4
Total Liabilities	36.8	34.3
Net Assets	86.6	72.0
Net Cash / (Debt)	0.2	(4.4)

Capital structure

- **\$0.2 million net cash position**
- Inventory increase reflects 4 new stores added (\$3.0 million), new store inventory infill (\$0.75m) and \$4.0 million of inventory to support post Christmas sales ahead of supplier shutdowns in January
- Payables increase in line with inventory

Dividends

- **Proposed FY2016 dividend** based on a payout ratio of **75% of pro forma NPAT**
- **Target ongoing payout ratio of 70% - 100% of NPAT**
- As indicated in the prospectus, no interim dividend will be paid in respect of the 1H FY2016 period
- All dividends are expected to be fully franked

Cash Flow Statement

Statement of cash flows

	Statutory 1H FY16	Statutory 1H FY15
\$ million		
EBITDA¹	8.0	5.5
Movement in working capital	(4.5)	(2.1)
Tax Paid	(3.9)	(2.1)
Net finance costs paid	(0.3)	(0.6)
Net cash flow from operating activities	(0.6)	0.6
New store capex	(2.1)	(1.8)
Capex (excluding new stores)	(1.6)	(1.3)
Operating cashflow	(4.3)	(2.5)
Proceeds from issue of shares, net of transaction costs	25.1	1.5
Dividends paid	(16.1)	-
Borrowings (net)	(1.0)	3.6
Net cash flow	3.7	2.6

- **Change in working capital** reflects new store openings and investment in inventory to support the January sales event
- **Tax paid** includes settlement of FY2015 tax return (\$2.4m) and FY2016 provisional tax (\$1.5m). In the prior year, the FY2014 tax return was settled in 2H
- **Capital expenditure** (excluding new stores) included investments in:
 - Warehouse Management System;
 - Business Intelligence software tools;
 - Improved website, adding Click & Collect functionality; and
 - Refurbishments and signage updates on a number of older stores.
- **\$28.7 million of new equity raised** (\$25.0 million from the IPO, and \$3.7 million raised from the exercise of existing options)

1. EBITDA excludes IPO transaction costs expensed and accelerated expenses of old LTI plan



6.

Outlook

Outlook

Updated FY2016 outlook reflecting strong trading performance year-to-date

- **Strong trading has continued into 2H FY2016** with year-to-date comparable stores sales growth increasing to 11.2% as at 31 January 2016
- **Updated FY2016 guidance:**
 - Sales are expected to be in the range of \$225 – \$235 million
 - Expect comparable store sales growth to moderate through 2H FY2016
 - Pro forma EBITDA expected to be in the range of \$16.5 million to \$18.5 million
 - Anticipate 5 to 6 new stores to be opened in FY2016 (including 4 opened in 1H FY2016)
 - Gross margin in 2H FY2016 is expected to remain largely consistent with 1H FY2016



7.

Appendix

Statutory - Pro Forma Reconciliation

	Statutory 1H FY16	Pro Forma adjustments	Pro Forma 1H FY16	Prospectus pro forma FY16
\$ million				
Sales	108.2		108.2	218.6
Cost of sales	(70.6)		(70.6)	(141.8)
Gross Profit	37.6		37.6	76.8
Cost of doing business:				
Store expenses	(21.6)		(21.6)	(43.8)
Marketing expenses	(2.0)		(2.0)	(4.0)
Warehouse expenses	(1.7)		(1.7)	(3.5)
Administrative expenses	(5.3)	0.7 ^{a,b}	(4.5)	(9.1)
IPO transaction costs expensed	(1.9)	1.9 ^c	0.0	
EBITDA	5.2	2.6	7.8	16.3
Depreciation and amortisation	(1.5)		(1.5)	(3.1)
EBIT	3.7	2.6	6.3	13.2
Net finance costs	(0.2)	0.1 ^d	(0.2)	(0.2)
Profit before tax	3.5	2.7	6.1	12.9
Income tax expense	(1.2)	(0.6)	(1.8)	(3.9)
Net profit after tax	2.3	2.0	4.3	9.1

a. Accelerated expenses of old LTI plan are excluded from pro forma results

b. Listed public company costs - estimate of incremental half year costs BB would have incurred if it operated as a public company for the full period. Adjustment also applied to comparative half year period

c. IPO Transaction costs - IPO costs charged as expenses excluded from pro forma results

d. Net interest - adjustment for part year impact on interest expense as if the major IPO cash flows had taken effect at 29 June 15. Adjustment also applied to comparative half year period

Glossary

Comparable Store Sales Growth	<ul style="list-style-type: none">• Calculated as a percentage change of the total sales generated from stores (including the online store) in a relevant period, compared to the total sales from the same set of stores in the prior corresponding period, provided the stores were open at the beginning of the prior financial year
Exclusive Products	<ul style="list-style-type: none">• Products sourced by Baby Bunting for sale on an exclusive basis (so that those products can only be purchased in Australia from Baby Bunting stores). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time
Net Promoter Score or NPS	<ul style="list-style-type: none">• Net promoter score is a method of measuring customers' loyalty. To calculate NPS, customers are categorised as "Promoters", "Passives" or "Detractors" based on how likely they would be to recommend Baby Bunting to a friend or colleague. The percentage of Detractors is then subtracted from the percentage of Promoters
Private Label	<ul style="list-style-type: none">• Products sold by Baby Bunting under its own brand (Baby Bunting currently markets its private label products under the 4Baby brand name)



Thank You!