



20 November 2017

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

AGM presentation

Attached is a copy of the Chairman's and CEO & Managing Director's presentation to be delivered at the Company's 2017 Annual General Meeting today.

For further information, please contact:

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2017 Annual General Meeting

20 November 2017

Ian Cornell
Chairman

Matt Spencer
Chief Executive Officer &
Managing Director



Ian Cornell
Chairman

**2017
Annual
General
Meeting**

Our Vision



**TO BE THE MOST LOVED
BABY RETAILER FOR EVERY
FAMILY, EVERYWHERE.**

Growth strategies

Growing market share through:

1

Growth from new store roll-out

- Disciplined roll out of 80 plus stores in identified trade catchments with a target of 4 to 8 new store openings each year

2

Growth from existing stores and online

- Maturing stores – 46% of stores are less than 3 years old (at the end of FY2017)
- Multiple initiatives to improve customer experience across all channels
- Growing brand awareness across all states and territories
- Increased investment in digital and online

In conjunction with:

EBITDA margin improvement

3

- Gross margin expansion by increases in scale, improving sourcing, development of private label and exclusive products
- Cost of doing business leverage

Underpinned by:

- Investing in IT systems and business processes
- Investing in warehousing and logistics and pursuing opportunities in our supply chain
- Investing in capability as we “Build the Best Team”



Matt Spencer
CEO & Managing
Director

**2017
Annual
General
Meeting**

The 2017 financial year

1

Trading⁽¹⁾

- Sales of **\$278.0 million**, up **17.4%** on the prior corresponding period
- Comparable store sales growth of **6.9%**
- Gross profit income up **17.4%**, gross margin of **34.3%**
- Cost of doing business (pro forma) improved by **37 bps** from FY2016, to **26.0%** of sales

2

Earnings⁽²⁾

- EBITDA (pro forma) of **\$23.0 million**, up **23.0%** on the prior corresponding period
- EBIT (pro forma) of **\$18.9 million**, up **22.3%** on the prior corresponding period
- NPAT (pro forma) of **\$13.0 million**, up **21.9%** on the prior corresponding period
- Final dividend of **4.3 cents per share** (fully franked) (total dividend for FY2017 of 7.2 cents per share)

3

Capital Structure

- **\$6.4 million of cash** at end of FY2017, plus **\$25.2 million available** in the borrowing facility
- Net cash flow from operating activities of **\$13.2 million**
- Capital expenditure of **\$7.4 million**

4

Growth

- EBITDA (pro forma) margin growth of **38 bps** on the prior corresponding period, to **8.3%** of sales
- Investment in customer experience in-store & online and our people culture programs. **NPS finished the year at 63**
- **6 stores opened** – Camperdown, Belrose and Blacktown in NSW, Preston in VIC, Baldivis in WA, and Mile End in SA

Note:

1. Pro forma financial results have been calculated by excluding employee equity incentive expenses for the current financial year and the prior financial year. In addition, the results for FY2016 have been calculated to reflect the results of the consolidated entity as if the Company was publicly listed for the entire financial year.
2. Refer to page 37 of the 11 August 2017 results announcement for a reconciliation of the non-IFRS financial information contained in this presentation to the IFRS-compliant information

Strategy and some business initiatives

Online and digital

Expanding online and our interactions with customers

- CRM and marketing automation
- 507,000 email subscribers
- 1.3 million visits to our online store (October 2017) (up 25% from same time last year)
- Online sales now 8.2% of sales (YTD)
- Expanded our Digital and Business Transaction team
- Baby Bunting ebay store launched

Operations

Enhancing the way we serve our customers

- Click & Collect (in-store fulfilment at around 3 hours)
 - Expanding our Customer Contact team improving customer experience
 - “Live chat” launched
 - ZipMoney implemented and other finance options to be made available
- Net Promoter Score finished FY17 at 63 (now at 66)

Price
Leadership
with best
value,
everyday

Merchandise

Expanding our great range and great value

- Private label & exclusive products: 11.4% of sales (FY17)
- Best Buys program – range of everyday low prices – 151% units sales growth (FY17) and now includes core range of car seats
- Year ahead, exclusive models of car seats and innovation and newness in the pram category

Building the Best Team

Investing in our Team Members and our culture

- Continuing to invest in product learning and sales training
- 3rd Employee Share Gift Offer
- 2nd Employee Engagement Survey – high level (top quartile) engagement and alignment
- LTIFR at an all time low – single digits

Our Core Purpose



**TO SUPPORT NEW AND
EXPECTANT PARENTS IN
NAVIGATING THE EARLY
YEARS OF PARENTHOOD.**

Investing to grow market share

Capital and operating expenditure plan FY2018

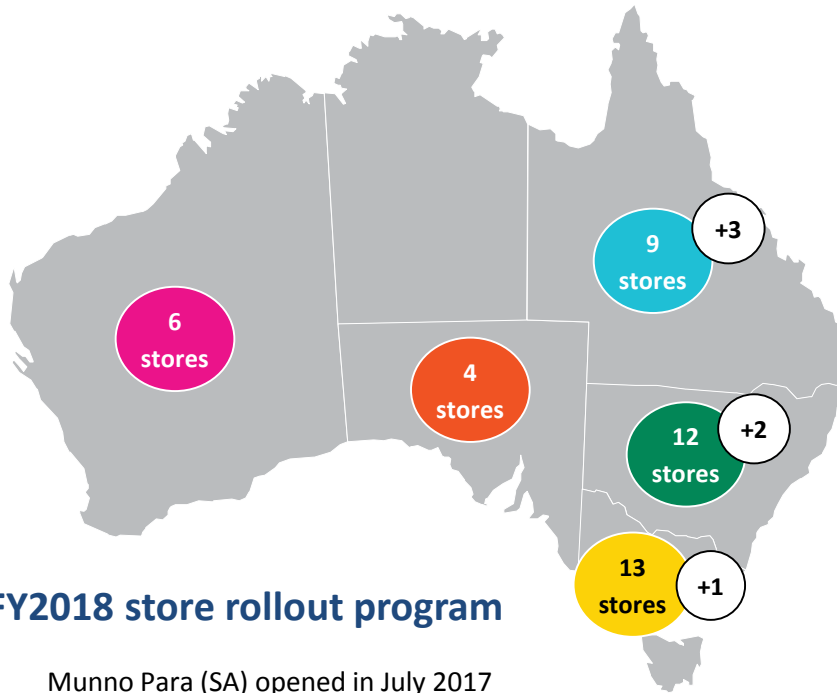
- Investment in new stores, plus ~\$4 million capital for infrastructure and capability to deliver growth:
 - refurbishment of Thomastown store – now complete
 - investment on in-store customer experience projects
 - further roll-out of CRM & Marketing Automation
 - investments in systems and the re-platform of Baby Bunting's ecommerce website
- Up to \$3 million investment in operating expenditure of which ~\$0.5 million is non-recurring
 - annualisation of existing roles \$0.4m, CPI \$0.4m and new roles to support growth \$0.8m
 - investment in capability, leadership, IT application software, recruitment and strategy \$1.5m (\$0.5m one off)

Update

- GM Supply Chain appointed; to commence in December
- Supply Chain Project underway with quick win opportunities identified
- Expect additional investment in operating expenditure to be around \$2.5 million (lower than \$3 million expected at the start of the year) due to timing and savings achieved

Baby Bunting's store network update

44 stores across Australia, with significant roll-out potential to over 80 stores



FY2018 store rollout program

- Munno Para (SA) opened in July 2017
- Albury (NSW) opening on 25 November 2017
- Expect a further 6 new stores to open in 2H FY2018
 - 3 more stores in Queensland – Aspley (early Jan 2018), Browns Plains (March 2018), plus finalising lease for a regional store
 - 2 more stores in NSW, including Chatswood (end of FY2018)
 - 1 new store in Melbourne
- Sales contribution from new FY2018 stores to be ~\$12 million (some delays in openings experienced)

Queensland			
Helensvale	Fortitude Valley	North Lakes	Capalaba
Kawana	Macgregor	Burleigh Waters	Townsville
	Booval		

New South Wales and ACT			
Penrith	Auburn	Campbelltown	Blacktown
Warners Bay	Moore Park	Camperdown	Fyshwick (ACT)
Taren Point	West Gosford	Belrose	Albury (25 Nov)

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

South Australia			
Gepps Cross	Melrose Park	Mile End	Munno Para

Western Australia			
Cannington	Joondalup	Osborne Park	Baldivis
Myaree	Midland		

Changes in our market

Changing market dynamics

Arrival of Amazon

- we believe Baby Bunting is well placed
- our **online** presence is supported by our **national** store network
- investment in customer experience and engagement
- focus on fulfilment improvements

Direct market changes

- significant competitor store closures
- as we expand market share, competitors are competing with greater intensity in an attempt to capture sales resulting in deflation

Baby Bunting is well positioned for the future



Some key changes in markets

Changes in competitive dynamics occurring in all markets

Changes in competitive landscape with the closure of Bubs (late September), Baby Bounce WA (late October) and YCN (November)

This provides **significant incremental revenue opportunity of around \$25 million** (per annum)



Trading update – sales

FY2018 YTD* metrics (vs prior corresponding period)		
	All stores	Comparable stores**
Transactions	▲ 15.5%	▲ 3.1%
Units sold	▲ 17.2%	▲ 4.2%
Total business sales	▲ 11.4%	▼ 0.1%

* Year-to-date numbers are as at 13 November 2017

** Comparable stores are those stores that have been opened for all of the prior financial year

- Baby Bunting continued to demonstrate **positive market share growth** across all regions
 - total year-to-date **sales up 11.4%** and total number of **transactions up 15.5%**
 - 2017 new stores are **trading above expectations**
 - growth in average items per transaction (IPT)
- Changes in competitive landscape with the closure of Bubs (September), Baby Bounce WA (late October) and YCN an Adelaide independent store (November) provides **significant incremental revenue opportunity of around \$25 million** (per annum)
- Store closures and aggressive discounting have created near term price deflation in the market, impacting comparable stores sale performance
 - Total year to date **comparable store sales performance down 0.1%** and total number of **transactions up 3.1%**
 - Price deflation significant at 4.3% year-to-date
- Since September, our stores where Bubs shared the catchments, **have seen sales growth of +17%** (pcp)
- Ongoing issues with a car seat supplier during the period has impacted sales by ~\$2m

Trading update – gross margin

FY2018 YTD* metrics (vs prior corresponding period)	
Gross margin	
Price deflation**	▼ 4.3%
Better buying terms	▲ 2.6%
YEAR-ON-YEAR GP% CHANGE	▼ 1.7%

FY2018 gross margin % (vs prior corresponding period)	1H FY18 F	2H FY18 F	FY18 F
Gross profit % (vs prior corresponding period)	▼ 1.6%	▼ 0.2%	▼ 1.0%

- Gross margin has been impacted across the country year-to-date
- Price deflation significant at 4.3% year-to-date – principally in prams and car safety – offset by better buying terms of 2.6%. Year-to-date **GP% reduction of 1.7%**
- Gross margin percentage expected to **return to FY2017 levels by end of FY2018** as the impact of internal initiatives are achieved throughout the year
- Key initiatives already underway include:
 - increasing **exclusives** in core categories
 - increased FOB **direct importing** and
 - **improving trading terms** with key suppliers
- **Price recovery is not included in the sales or gross margin year-to-go forecast**

* Year-to-date numbers are as at 13 November 2017

** Price deflation is a measure of change in average sale price of all items (excluding clearance items)

Outlook

- Baby Bunting now expects the **FY2018 EBITDA** (excluding employee equity incentive expenses) to be around that achieved in FY2017 (\$23m pro forma EBITDA)
- FY2018 full year guidance includes the following **key assumptions**:
 - **Comparable store sales growth** of ~4% for FY2018
 - FY2018 **new stores (8)** to contribute ~\$12 million of sales. 6 stores to open in H2 FY2018
 - **FY2018 gross margin % to be around 33.3%** (LY 34.3%). Margins expected to improve throughout the back of the year and to have recovered to be approximately the same level as FY2017
 - **Store expenses** as a % sales consistent year-on-year (at ~21% of sales)
 - **Investment** in overheads to be \$2.5m due to timing and savings (versus initial estimate of \$3.0m)
 - **Overheads** as a % sales to be 5.3% versus 5.1% in FY2017, noting we expect **CODB leverage** to return in FY2019

This guidance is also provided subject to the important notice regarding forward looking statements in this presentation.

Important notice

Forward looking statements

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 Annual Report 2017 which includes the Directors' Report (dated 11 August 2017) contains details of a number of material risks associated with an investment in Baby Bunting (but not necessarily all). 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.