20 November 2017

ASX Market Announcements Office
Australian Securities Exchange

Baby Bunting Group Limited (ASX: BBN)

Chairman's and CEO & Managing Director's presentation

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

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BABY BUNTING GROUP LIMITED
2017 ANNUAL GENERAL MEETING – 20 NOVEMBER 2017

CHAIRMAN'S AND CEO & MANAGING DIRECTOR'S ADDRESS

CHAIRMAN'S ADDRESS

The 2017 financial year

The 2017 financial year was a successful year for Baby Bunting. It was a year where we continued to focus on our customers and invest in the business. We did this through expanding our store network and growing market share in-store and online, all the while ensuring growth in earnings and profitability.

Total sales for the year were $278.0 million, up 17.4% on the prior corresponding period. On a pro forma basis, earnings before interest, tax, depreciation and amortization was $23.0 million, up 23.0% on the prior corresponding period. Pro forma net profit after tax was $13.0 million, up 21.9% on the prior corresponding period.

The Company finished the year with net cash of $1.6 million. The balance sheet is strong and the combination of our cash generation and funding capacity supports our growth programs.

Matt Spencer, the Company's CEO and Managing Director will talk more about the 2017 financial year later in the meeting.

For FY2017, the Company paid total dividends of 7.2 cents per share fully franked.

Our continuing strategy for market share growth

Baby Bunting is Australia's largest specialty baby goods retailer. Our Vision is to be the most loved baby retailer for every family, everywhere.

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

- **our new store roll-out program**.

  To this end we have opened stores across the country – 6 stores last year and 2 stores year to date – and as we have done so, we have taken market share from others. Consequently we have seen significant changes in the competitor set, especially in Queensland and WA.

- **growing our existing stores and online**.

  We have invested over the past year and continue to invest in the current year on the in-

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store customer experience.

We have taken the decision to be the price leader, as seen in our investment in the "Best Buys" program – where we expanded our everyday low pricing to our core range of car seats, as well as introducing our price beat guarantee. At the same time, some distressed competitors have pushed prices lower to generate cash. This has had direct impacts on our gross profit. But we have met this head on. Our approach here has been embraced by our customers – we've seen 15.5% year-on-year growth in transactions, year to date.

Our online presence grew strongly in FY2017 with a 76% sales increase on the prior year. It finished the year making up around 6.4% of our sales. Year to date online sales continue to grow and represent around 8.2% of sales. Click & collect is also growing strongly. At the end of last year, it was 25% of online sales and it continues around this level. It highlights the complementary nature of our physical store network and our online store.

This is all in conjunction with EBITDA margin improvement achieved through leverage and gross margin. In FY2017, we achieved leverage and second half gross profit percent growth. The strengthening of our price promise of not being beaten on price has impacted our gross margin in a market where a number of distressed baby retailers are clearing stock at unusually low prices. We are prepared to suffer the relatively short term consequences to gross profit and we remain firmly committed to our customers that they can have confidence in getting the best possible prices at Baby Bunting.

Ultimately, we believe that this strategy will deliver superior shareholder returns in the long term.

Our strategy of rolling out new stores and growing existing stores and online are all underpinned by a continuing focus on:

- investing in IT systems and business processes;
- investing in warehousing and logistics and pursuing opportunities in our supply chain; and
- building capability in our people as we "build the Best Team".

Consistent with this, during the current year, we have remained focused on capital investments for the next stage of growth as well as operating expenditure to build new capability within the team and on some strategic projects.

Investing in the growth and capabilities of the business is consistent with the growth strategy first outlined to the market back when Baby Bunting listed in 2015. However, it also takes on additional significance as the market dynamics change. Amazon is preparing to enter the Australian market and we continue to see the growth of online marketplaces. We have a well developed strategy to deal with this. There is a significant growth profile ahead; we are a lean organisation with the ability to adapt the execution of our offering to respond to, and take advantage of, changes in the market and in the way consumers shop.

Employee Gift Share Offer

In October, the Company completed its Third Gift Offer under its General Employee Share Plan. This plan involves the offer of $1,000 worth of Baby Bunting shares to eligible employees for no monetary cost.

Around 53% of our total number of team members currently hold shares as a result of these offers. We think that's a great result and also a great start. It's a practice that will help us to achieve our goal of being the most loved baby retailer for every family, everywhere.

The Board

During the year, Donna Player and Stephen Roche joined the Board. They are seeking election at this AGM (and shortly each of them will say a few words in support of their election). Both Donna and Stephen have had successful executive careers and bring considerable retail experience to complement the strong retail skills and expertise currently present on the Board.

I would like to acknowledge Barry Saunders and Tom Cowan who stepped down as directors during the financial year. They both made significant contributions to the Company over a number of years.

Following the appointment of new directors, the Board reviewed the composition of its two Board Committees. I stepped down from the Audit & Risk Committee upon becoming Chairman of the Board. Melanie Wilson and Stephen became members of the Audit & Risk Committee. Gary Levin continues to chair that Committee.

In relation to the Remuneration & Nomination Committee, Donna Player became a member; Melanie became Chairman, and I continue as the third member of that Committee.

Given the Company's current size and stage of growth, the Board considers that the optimal number of directors is between five to seven non-executive directors. Donna and Stephen's appointment during the year bring some very valuable skills and perspectives to the Board.

To conclude my comments, on behalf of the Board I would like to thank the over 900 Team Members who work at our Baby Bunting stores and those in the Distribution Centre and Support Office. It's a very dedicated team who I know are very much committed to helping new and expectant parents in navigating the early years of parenthood.

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I now invite Matt Spencer to talk about the Company's financial performance for the prior financial year, the operational achievements for the year as well as giving an update on trading year to date and for the year ahead.

CEO & MANAGING DIRECTOR'S ADDRESS

Thank you Ian, and good morning shareholders.

The FY2017 financial overview

I was very pleased by the performance of the business and our Team over the 2017 financial year. Despite a more challenging retail environment through the second half of the year, we were still able to deliver a strong result. This included a good sales result achieved despite a couple of delays in opening of some new stores. Other key achievements were disciplined management of costs and expanded EBITDA margin.

I echo Ian's comments, that we have a great team of people. They are in our Stores, our Distribution Centre and our Support Office. They all worked tirelessly to deliver a great result.

The key financial highlights from the 2017 financial year include:

- sales of $278 million, up 17.4%;
- pro forma EBITDA of $23 million, up 23%; and
- comparable store sales growth of 6.9% – in line with our long term average.

Gross profit income was up 17.4% with gross profit percent in line with prior years at 34.3%. We achieved an improvement of 25 basis points in gross profit percent in the second half of the year when measured against the prior corresponding half.

Looking at the balance sheet, the key highlights have been the investment in stores, maintaining working capital ratios, and the extension of our banking facility out a further 3 years as well as increasing the size of the facility by an additional $10 million to support growth.

I'd like to highlight that cash payments associated with dividends were unusually high in the year. We paid out a $7.9 million FY16 full year dividend plus the $3.6 million interim dividend. This has meant our net cash position reduced by around $6 million year on year, to finish at a net cash position of $1.6 million.

Inventory levels increased $6.9 million from the prior year. This can be split into a $5.2 million investment in new store inventory (which includes the store opened just after financial year end), and a $1.6 million investment in existing store inventory to support sales growth. Being "in stock" is a key point, as immediate stock availability is a key differentiator between us and our competitors.

Relative to our inventory balance, our payables balance increased by $4.2 million for the year. As a percentage of inventory this was consistent with the 2016 year at 58%.

Strategy and business initiatives

Our Vision is to be the most loved baby retailer for every family, everywhere.

As Ian stated above, the Company's strategy is focused on:

- our new store roll-out program; and
- growing our existing stores and online,

all in conjunction with EBITDA margin improvement achieved through leverage and gross margin gains. This objective of continual EBITDA margin improvement does not rule out short term tactical responses to manage competitor consolidation (as we are seeing now) in a highly competitive environment.

These strategies are all underpinned by a continuing focus on:

- investing in IT systems and business processes;
- investing in warehousing and logistics and pursuing opportunities in our supply chain; and
- building capability in our people as we "build the Best Team".

I will now discuss our progress on some of these initiatives.

Online and digital

During the year, we deployed our customer relationship management – or CRM – system and marketing automation platform.

The CRM system has given us the ability to have a single view of the customer, across all channels. In relation to marketing automation, we have initiated "welcome" campaigns as users sign-up to the Baby Bunting community. These campaigns provide us with important information which helps us better understand and support our customers. Pleasingly, we've experienced some exceptionally high traction with these campaigns. When you consider that we currently have over 507,000 email subscribers, the commercial opportunities available through our marketing automation platform are very promising.

Towards the end of the 2017 financial year, we launched a Baby Bunting store on ebay. We have been very pleased with the growth of sales on that platform. Adding this additional channel to market has complemented our existing online and in-store offering.

We continue to invest in our digital and online capabilities. We have expanded our team to include a CRM and Digital Manager as well as a Business Transformation Manager to enhance the execution of our digital and IT strategies. We have a number of projects and initiatives underway and we expect to see ongoing improvements and enhancements across all of our key systems.

To put some colour around this, we saw 1.3 million visits to our online store in the last month – which was up 25% over the same time last year. This is a consistent trend. Conversions also continue to improve.

Operations

We have been enhancing the way we serve our customers in-store. Fulfilment of click & collect from stores was introduced during FY2017. The uptake of this service remains strong.

Expanding our Customer Contact team has improved customer experience. The team has recently initiated “live chat” on our website to assist those of our customers exploring our range of offers on babybunting.com.au.

Layby is a popular way for our customers to shop. It’s a great service for expectant parents preparing for the arrival of a child or children. To complement this, we have added ZipMoney as a finance option and we will continue to expand the payment options available for our customers to ensure they have the best experience when shopping at Baby Bunting.

All of this is part of delivering a great customer experience. We’ve provided our customers the opportunity to rate their shopping experience at a transactional level through a Net Promotor Score measure. The NPS is a good measure of customer loyalty and advocacy for the brand. At the end of FY2017, on a cumulative basis, our NPS sat at 63. This was something we were really proud of. Year-to-date our NPS sits at 66. A very positive result.

Our store development team has been busy opening new stores, with our 44th store opening at Albury in NSW this week. The next store to open will be Aspley in Queensland. I’ll discuss store openings a little bit later in the presentation.

Merchandise

We finished FY2017 having grown private label and exclusive product sales to be 11.4% of sales. We continue to focus on growing this part of our offering.

Our “Best Buys” program is our range of products that are at everyday low prices – part of our delivery of better value to customers. In July 2016, we re-launched that program with very strong uptake and during FY2017 there was unit sales growth of 151% on FY2016. At the start of the current financial year, our “Best Buys” program was expanded to include our core range of car seats. This offer of everyday low prices on such an important category of product has resonated well with the consumer. For car seats, our aim is to be the price leader 365 days of the year in-store and online. We will continue to expand our “Best Buys” range to include further products and categories of products.

As the current financial year progresses, we have a number of new and really exciting products coming to market. There are new and exclusive models of car seats coming into store now and there are some great new designs of prams that are entering the market in the new calendar year.

Building the Best Team

I am extraordinarily proud of being a member of the Baby Bunting Team. We have a wonderful business. Our core purpose is to support new and expectant parents in navigating the early years of parenthood. During the year, with the input of our Team Members, we developed our Vision and Values – which are our guiding principles and beliefs. They reflect our history, the characteristics that are present in our business and things that we believe are important in the way we operate. Looking to the future, our Vision is to be the most loved baby retailer for every family, everywhere.

We continue to invest in our Teams through ongoing product learning and sales training. We continue to invest in capability in our store teams and at our Support Office.

We have recently completed our second Employee Engagement Survey. The results were consistent with the first survey and both show a very high level of employee engagement and alignment that is in the top quartile when measured against a large sample size of other Australian organisations and retailers. Given the nature of our business, we will continue to focus our efforts on building the Best Team.

In terms of employee health and safety, our lost time injury frequency rate is now at an all-time low. This rate has declined significantly in recent years and reflects the efforts everyone has put into thinking safe, acting safe and being safe at Baby Bunting.

Operating and capital investments

As mentioned by Ian, we continue to invest to grow market share. In August, we highlighted further capital and operating expenditures that were occurring to continue to support the business and its growth.

This was to consist of investments in new stores, plus around $4 million capital for infrastructure and capability to better deliver growth. These capital projects consist of:

- investment in the refurbishment of the Thomastown store – which is now successfully completed;
- investment on in-store customer experience projects;
- further roll-out of CRM and marketing automation; and
- investments in systems and the re-platform of Baby Bunting’s ecommerce website.

In addition, we flagged up to $3 million investment in operating expenditure of which around $0.5 million is non-recurring. This consists of investments in capability, leadership, IT application software, recruitment and strategy initiatives (being $1.5 million in total, of which around $0.5 million will be one-off costs). A further $0.8 million is made up of the annualization of new roles from the prior year and $0.4 million of CPI. We anticipate that this will be around $2.5m for the year now, partially due to timing and also the result of some savings made. We are currently in the process of recruiting a Head of Marketing to join the Executive Team.

We have appointed a General Manager – Supply Chain, Marcus Robinson, who joins the business and the Executive Team in early December. Marcus joins us most recently from Toll and he has had considerable Australian and overseas experience with supply chains, logistics and international freight. We are also nearing the end of the first phase of our Supply Chain Project. This is an important project as it will assist in further defining the way in which we can most efficiently get products from source into the hands of our customers. Customers’ expectations around fulfilment and convenience continues to evolve and thinking critically about our supply chain will help us in organising our priorities as we continue to grow and expand.   In addition to this, we believe the Supply Chain Project will help us to deliver EBITDA margin expansion.

New store roll-out

Baby Bunting has a store network plan that has identified a network of over 80 stores.

We opened 6 new stores in FY2017. These stores are trading above our expectations.

As mentioned earlier, this week we will open our 44th store at Albury. It is our 3rd regional store – the other two, Ballarat and Bendigo are performing well and in line with our expectations.

The next store to open will be at Aspley, a suburb north of Brisbane. This store will be located in a former Bubs Baby Shop location and will be our 10th store in Queensland. We have plans for two further stores in Queensland this financial year – at Browns Plains Home Maker Centre and we are near finalizing arrangements for a regional store in Queensland.

In New South Wales, in addition to Albury, we have plans to open a further two stores this financial year. One of these stores is planned for Chatswood – where we expect to shortly finalise documents for a large format retail space in what is otherwise a very tightly held area. We expect Chatswood to open towards the end of the financial year.

We also expect to open a further store in the Melbourne – also towards the end of the financial year.

There has been some delay in the opening dates of a couple of our new stores. Expected store openings will take the number of new stores to open in FY2018 to eight. This number is at the upper end of our store openings, as we aim to open between 4 – 8 stores a year. We anticipate our 8 new stores opening to contribute around $12 million in sales.

Changing market dynamics

As has been widely reported, retail is going through a challenging time. For Baby Bunting, challenges and opportunities are presenting themselves in two aspects. On the one hand we have the imminent arrival of Amazon in Australia. On the other hand, in our market segment, we are seeing considerable change in direct competitor dynamics.

The direct market changes – changes in the competitor dynamics is a positive in the long term for Baby Bunting.

The impact of Amazon is unclear. However, we believe baby goods is a unique and defensible retail category in Australia. In-store experience is important to customers, as well as for suppliers and national brands. Purchasing baby goods is a highly considered buying decision made over a long period of time for new and expectant parents and lends itself to a bricks and mortar retail experience. This format also allows suppliers and national brands to demonstrate their products and to introduce new products to the market.

Notwithstanding this, we recognize that this is only part of the proposition. To be relevant, Baby Bunting needs to offer great value, the widest range of products and excellent service

– across all channels. We offer a range of services to customers – such as layby, gift registry, car seat fittings, our “Baby Talk” reference material on our website plus our experienced and highly engaged Team Members in-store.

Looking at the existing direct competitor landscape, there have been some relatively dramatic changes since we released our full year results in August. In recent times, there have been significant closures of specialty baby goods stores. In some instances retail chains have completely exited states or have ceased trading altogether.

A consequence of our store expansion program and market share growth, has been industry consolidation, with some greater competitive intensity involving some operators clearing stock and lowering prices in an attempt to capture sales and maintain market share. In some regions, this has been significant and it does affect our business in the short term. This, combined with a generally challenging retail environment, has given rise to some fairly difficult trading conditions in our category.

Looking at particular regions, we can better see the effect of these changes and the opportunities for Baby Bunting.

In Queensland, Bubs Baby Shops went into administration in August 2017. Bubs operated six stores in Queensland and a further two stores on the central coast of New South Wales. It has been reported that Bubs had sales of $17 million in FY2017. A number of the Bubs stores were located in proximity to a Baby Bunting store. In the lead up to its administration and until the time of their liquidation in September, there was a degree of distressed selling in the area. These offers were also promoted online. During the period, the administrators liquidated all of the remaining Bubs’ stock at low prices. The consequence for Baby Bunting is that we guarantee our prices as we are committed to providing great value for our customers. This impacts both our average selling price and gross margin. It can also potentially bring forward sales ahead of the customers’ need. Post the closure of Bubs, we have seen some positive sales results flowing in the affected catchments with sales growth of +17% since September.

In Western Australia, a competitor (Baby Bounce) has closed its three stores in that state and has exited that market. As with the Bubs experience, there was significant discounting and clearance of stock before the stores finally closed in late October. (Baby Bounce now operates a remaining network of 10 stores across Queensland and New South Wales.) This presents a future opportunity as Baby Bunting currently operates six stores in Western Australia and has the strongest retail offer in the category in that state and we are very well placed to serve customers in Perth and the surrounding areas.

In South Australia, Baby Bunting opened its fourth store at Munno Para; a suburb north of Adelaide. There has been some changes in the composition of this market and a long standing operator has closed their store in November. They had been offering heavily discounted product in the market leading up to their closure.

In New South Wales, there have been a number of single store operators who have closed. The specialty baby goods market in Australia has been highly fragmented – although we are, we believe, beginning to see some consolidation. Nevertheless, single store operators have a national reach in the digital age. At this this time, there has been some distressed specialty stores focusing on core top sellers to drive sales volume. This has impacted gross profit margin percentage and the average sales value.

In addition, as we have previously disclosed, there has been some supply challenges from key suppliers that has affected in-stock positions for baby goods retailers. A key issue has been the supply of car seats into Australia by one of the leading brands in car seats and capsules this year, resulting in industry wide product shortfalls. We had expected the product shortfalls to be resolved in early October which did not occur. This has contributed to reductions in sales in the car safety category, which is a very important category in baby goods retailing.   The product started to reach the market in recent weeks (mid-November).

This financial year, in all states we have seen an unusually high level of discounting and clearance sales including warehouse clearance sales with promotional discounting occurring at unprecedented levels.   We are committed to providing value to our customers and have been ensuring we have been competitive through this period despite the high levels of discounting and clearance in the market. Our customers can have the utmost confidence in the price of baby goods at Baby Bunting.

Trading update

Looking now at the trading update.

Trading conditions: We last updated the market on 11 October at which time we stated that the competitive environment and stock availability needed to stabilize in order to achieve our stated earnings guidance range.

Indications to date are that this will take longer than anticipated. Market pricing has not yet stabilized and competitor discounting continues to occur at unprecedented levels. Notwithstanding this price deflation, we will not back away from this challenge and remain committed to providing our customers with confidence in our value proposition.

We expected that the supply issues from a key car seat supplier to resolve from mid-October. This is only now starting to occur. The delay in the supply of core car seats, a major category for us, has adversely affected sales during this time.

The business is performing well and we believe the strategy is working. To give shareholders some colour around this, we are sharing some information beyond what we normally publish to give a sense of the underlying business.

Comparable store sales: On a comparable store basis, unit sales are up 4.2% year-to-date and transactions are up 3.1%. However, this has been more than offset by price deflation across a number of categories such that our comparable store sales growth as at 13 November was flat year-to-date. Our expectation now is that comparable stores sales growth for the full year will be around 4%.

Sales & market share growth: We expect sales momentum to continue to build as we grow market share through the year based on industry consolidation and the 8 new stores planned for this year plus the continued above anticipated sales from the 6 stores opened in FY2017. Munno Para opened at the start of the year and Albury opens this week. We then plan to open a store in Aspley in Queensland in early January, with a further 5 more stores to open in the second half. We expect our 8 new stores opening in FY2018 to contribute around $12 million in sales.

Gross profit: Gross margin is currently running at around 170 basis points below the prior year's level and this is likely to be reflected for the first half. I have been pleased by the fact that we have been able to achieve better buying and improved buying terms during the period which has reduced the impact of deflation. Our expectation is that gross margin will continue to improve over the year, driven by increasing exclusive product offers in major categories and some new pram offers flowing through in the second half. We are expecting to increase our direct importing and FOB buying program with further improvements in trading terms flowing through in the second half.   This should see gross margins improve throughout the back of the year and to have recovered to approximately the same level as FY2017 by year end. Overall, the FY2018 full year gross margin is expected to be around 100 basis points below the prior year's level.

FY2018 EBITDA guidance: While there is a degree of uncertainty in the market at this time, as a consequence of the above factors, we consider that FY2018 EBITDA (excluding employee equity incentive expenses) will be around the EBITDA achieved for FY2017 of $23 million.

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To close, I would like to thank the Board and all Team Members for their efforts in 2017 and we are looking forward to continuing to pursue our vision to be the most loved baby retailer for every family, everywhere.

I'll now hand back to Ian who will proceed with the formal part of the meeting.
Thank you.