

## ASX Announcement

26 August 2021

### **BEST & LESS GROUP DELIVERS RECORD PROFIT AND EXCEEDS PROSPECTUS FORECASTS ON ALL KEY METRICS**

Leading value apparel specialty retailer Best & Less Group Holdings Limited (ASX:BST) (**BLG or the Company**) today announces its financial results for the 52 weeks ended 27 June 2021<sup>1</sup>.

#### Highlights<sup>2</sup>:

- **Exceeded Prospectus forecasts on all key metrics**
- **EBITDA of \$71.6 million, up 165.2%**
- **NPAT of \$47.0 million, up 191.9%**
- **Total sales of \$663.2 million, up 6.1%**
- **LFL sales growth<sup>3</sup> of 10.8%**
- **Online sales growth of 33.5%, representing 9.2% of total sales**
- **Gross profit margin 48.9%, up 430bps**
- **~1.7 million loyalty members**
- **Strong balance sheet with robust net cash position of \$35.7 million**
- **Key strategic initiatives progressed in a challenging trading environment**
- **CY21 Prospectus forecasts for EBITDA and NPAT confirmed**

BLG Chief Executive Officer, Rodney Orrock, said: "I am very pleased to report a strong result for FY21, our first as a listed company. Delivering a record profit and exceeding our Prospectus forecasts in all key metrics, with EBITDA and NPAT ahead 18.0% and 18.1% respectively, is an endorsement of our strategy, leadership in the value retail apparel segment, particularly baby and kids' categories and our omni-channel sales model.

"Our strong like-for-like sales growth of 10.8% in FY21 reflects the success of our differentiated customer value proposition of 'twice the quality at half the price'. The robust performance of our core categories, including baby which grew by over 15%,

<sup>1</sup> Pro forma unaudited results. See Appendix 4E for Statutory results for the period July 29 2020 to June 27 2021. See also 'Comments on reporting' section at the end of this announcement.

<sup>2</sup> All comparisons relate to the prior corresponding period (pcp) unless otherwise stated.

<sup>3</sup> Like-for-like (LFL) revenue growth is calculated as a percentage change between the total aggregated revenue generated from stores (including online) in a relevant period, compared to the total aggregated revenue from the same set of stores in the relevant previous corresponding period. A store is included in BLG's LFL revenue growth calculation after it has been trading for a minimum period of 12 months. Each period in which stores were temporarily closed due to COVID-19 for a period in excess of three days has been excluded from the LFL calculation. The periods in which stores were closed for a prolonged period due to refurbishments are also excluded from the LFL calculations.

as well as underwear and sleepwear, further highlights the defensive characteristics of our business.

“Our record profit and high margin outcomes, despite continued disruption from COVID-19, were the result of disciplined execution of our strategy, centred around conveniently delivering a growing family's clothing essentials, and a focus on effectively managing the things we can control, including our inventory and costs. These qualities are built into our DNA and will continue as we trade through ongoing uncertainty in the near-term.

“In this challenging environment the deep retail sector experience of our management team pays off, enabling us to respond effectively to rapidly changing conditions. I would like to thank all of our team members for their commitment to providing excellent service, our suppliers for their support during a challenging period and our customers for their continued loyalty.”

	FY21	FY20	Var	FY21F	Var
<b>Pro forma financial summary</b>					
Revenue (\$m)	<b>663.2</b>	625.0	+6.1%	657.7	+0.8%
Gross profit (\$m)	<b>324.5</b>	278.6	+16.5%	313.6	+3.5%
Gross profit margin (%)	<b>48.9%</b>	44.6%	+430bps	47.7%	+120bps
Total CODB <sup>4</sup> (\$m)	<b>252.9</b>	251.6	+0.5%	252.9	-
EBITDA (\$m)	<b>71.6</b>	27.0	+165.2%	60.7	+18.0%
EBITDA margin (%)	<b>10.8%</b>	4.3%	+650bps	9.2%	+160bps
NPAT (\$m)	<b>47.0</b>	16.1	+191.9%	39.8	+18.1%
<b>Key financial metrics</b>					
Number of stores	<b>245</b>	250	(5)	245	-
Revenue growth (%)	<b>6.1%</b>	2.7%	+340bps	5.2%	+90bps
LFL revenue growth (%)	<b>10.8%</b>	4.8%	-	8.9%	+190bps

## Business performance

BLG delivered a strong trading performance in FY21 in its store network and online, driven by disciplined execution of its growth strategy and a continued focus on cost control. This was achieved despite on-going COVID-19 related shutdowns impacting parts of Australia and New Zealand.

For the 52 weeks to 27 June 2021, BLG recorded total revenue of \$663.2 million, up 6.1% on the prior corresponding period (pcp), and strong like-for-like (LFL) revenue growth of 10.8%. Growth in BLG's core categories underpinned this result as well as the Company's 'good, better, best' product and pricing mix, which drives higher average selling price and gross margin. BLG sold almost 90 million units in FY21, reflecting its high volume of sales which is key to enabling its value offer.

<sup>4</sup> Cost of doing business (CODB) is calculated by deducting EBITDA from gross profit.

Online sales grew by 33.5% on the pcp, benefiting from multiple improvements in BLG's offer including an enhanced customer experience, the introduction of 'click and collect', additional store-based fulfillment options and a new mobile app. The online channel delivered 9.2% of total sales in FY21 (FY20: 7.3%).

Sales in the baby category were particularly strong across all channels, up 15.6% on the pcp, as BLG continued to leverage its market leading position. Baby is a category with high competitive entry barriers and is a valuable customer acquisition engine for BLG, with its 'halo' effect driving growth in other categories. Growth in the newborn and baby sleepwear categories shows BLG's success in acquiring new customers, as the Company continues to gain share in this highly attractive and non-discretionary market.

Strong growth across all BLG's other core categories, including underwear and sleepwear, highlights the defensive nature of the Company's retail offer, which is not reliant on fashion items to drive volume. BLG continues to see opportunities in the future to grow its share of the womenswear market by leveraging its largely female customer base.

Gross profit margin improved by 430bps on the pcp to 48.9%, reflecting leverage from BLG's 'good, better, best' product and pricing mix, vertical retail model, scale, and conservative currency hedging strategy, outperforming the Prospectus forecast by 120bps.

FY21 pro forma EBITDA of \$71.6 million was up by 165.2% on the pcp and 18.0% ahead of Prospectus forecast. The key drivers of the strong EBITDA result were gross profit margin expansion, agile inventory management which resulted in improved stock turnover, BLG's 'clear-as-you-go' approach, and successful management of costs.

Pro forma NPAT of \$47.0 million was 191.9% up on the pcp and 18.1% ahead of the Prospectus forecast.

### **Strong cash flow and robust balance sheet**

Supported by the strong trading result, BLG reported pro forma operating cash flow of \$59.8 million, ahead of the Prospectus forecast of \$52.4 million. As a result, BLG had a net cash position of \$35.7 million at the end of FY21, providing operational flexibility and growth capital for the business.

BLG's inventory balance at year-end of \$80.5 million was in line with the Prospectus forecast. When compared to normalised pre-COVID-19 inventory levels in June 2019, this represents a decrease of 26.4%. Aged inventory<sup>5</sup> comprised only 1.6% of total inventory at period end, compared with 7.4% at the end of FY20.

<sup>5</sup> Aged inventory is defined as last receipt date greater than 12 months.

To provide additional financial flexibility to manage market disruptions and invest for growth, BLG has access to a \$50 million working capital facility with Commonwealth Bank of Australia and a \$NZ5.5 million working capital facility with BNZ.

### Operational highlights

During the year, BLG made progress on several key initiatives that underpin the Company's growth strategy and brand. These included investment in its online sales platform, aiming to improve customer experience. These included increased 'click and collect' and 'ship from store' capabilities, which improves online capacity and service by fulfilling online orders from select Best & Less stores closer to the customers location.

The launch of the Best & Less mobile app in July 2021 has been well received and is delivering improved conversion and increased session duration, while providing the Company with richer insights into customer purchasing behaviour.

The Company's loyalty programs were enhanced during the year and grew by over 400,000 members, or 31%, to ~1.7 million members<sup>6</sup> across Best and Less and Postie at the end of FY21.

Complementing the growth in online sales and in line with its growth strategy, BLG opened two new stores and relocated six stores, including two stores with expanded floor space, during FY21. Seven stores were closed during the period, largely completing the Company's store optimisation program.

A Product Lifecycle Management (PLM) solution is on track for commissioning as planned by October 2021. The PLM will enhance BLG's product innovation capabilities and speed to market of product, while importantly enabling a more granular examination of the labour cost components within the production process.

### People and Culture

The health and safety of BLG's team members and customers remains paramount and the Company continues to adhere to strict COVID-safe protocols. BLG aims to create a culture where team members are valued, empowered and accountable and the Company's values, including sustainability and community, are core to its family-led offer.

During FY21 a new workforce management solution was successfully implemented in Australia. This management tool will enable ongoing improvements in labour

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<sup>6</sup> Active contactable members who have opted-in to receiving regular Best & Less email offers. Historical active customer data assumes the current total member to active member ratio between Best and Less and Postie businesses is similar, given Postie active member data is not available.

productivity and cost control through better roster planning and management, as well as providing valuable risk management benefits for BLG.

As a business with family at its core, BLG is committed to safeguarding human rights, ethical sourcing and paying living wages across its operations and supply chain. In support of these objectives, BLG published its first Modern Slavery statement during the year and made progress on its commitments outlined in its Living Wage Statement. In line with its Ethical Sourcing Code, BLG conducted 217 factory audits within the last 12 months to ensure compliance across its supplier base. The Company also initiated a Workers Grievance Hotline to protect workers employed by its suppliers in all of its factories and provide them a voice directly to the Company.

BLG also supported 173 different charities through Good360 and partnered with not-for-profit charity Drought Angels to help regional communities during the year.

### Trading update

Since the end of FY21, nearly every region of Australia has been affected by COVID-19 related disruptions, with lockdowns and government-mandated retail closures being enforced in most Australian states and territories and in New Zealand.

Consequently, traffic to BLG's physical stores has been significantly impacted, with approximately 19.9% of BLG's potential store trading days lost to date due to government mandated store closures. In locations where the Company's stores have been able to remain open, foot traffic has been adversely impacted during those periods with the harshest restrictions.

BLG has continued to operate its online store for both Best & Less and Postie and has offered 'click and collect' sales at selected stores in affected areas. For the 8 weeks to 22 August, BLG's online sales have grown by 6.8% over the elevated sales experienced in FY20 and by 107.5% against the same period two years ago. Importantly, the growth in sales versus pcp has increased as the Company has better aligned its marketing and fulfilment strategies to the current network and consumer situation. For example, an additional 80 contactless 'click and collect' stores have been activated this week to accommodate the extended and widespread lockdowns.

Throughout this period, BLG remains well connected to its ~1.7 million loyalty program members across Australia and New Zealand and the Company remains confident that the non-discretionary nature of a large portion of its offer means that sales will experience a bounce back once consumers can fully return to physical stores.

Through eight weeks of trading in H1 FY22, total sales are down 25.7% on FY21, LFL sales are -11.7% on FY21 and are flat on FY20. Gross profit margin percentage is ahead of expectations and BLG is tightly managing inventory, costs and cash flow.

Beginning 25 August and in accordance with NSW Government regulations, 44 Best & Less stores in NSW have re-opened to provide essential products including baby, maternity, health and beauty. Best & Less will continue to operate in line with the highest standards of safety for its customers and staff.

## Outlook

The COVID-19 situation is evolving rapidly with new information arising on a weekly basis. BLG's focus is to remain as flexible and productive as possible while positioning the business to maximise the positive trading opportunity it expects to arise once restrictions are eased across Australia and New Zealand.

The Company is undertaking a range of initiatives to mitigate the impact of COVID-19 and current lockdowns measures across the country. These initiatives include:

- Maximising sales via the online channel, augmented with 'click and collect' in stores that can safely provide the service;
- Selling baby and maternity essentials from otherwise closed stores in NSW, in accordance with Government regulations;
- Implementing a capital and hiring freeze and senior management voluntarily reducing their salaries by 20% while the lockdowns remain in place;
- Working with suppliers to defer and flow inventory in line with expected trading patterns;
- Diverting stock between stores and channels to better match expected consumer demand;
- Negotiating with landlords to appropriately share the burden of the mandated store closures;
- Agreeing a new inbound freight tender, limiting the impact of increased freight charges; and
- Managing store team rosters on a daily basis.

Given the strong trading and profit performance already delivered in H1 CY21, BLG expects to achieve its Prospectus pro forma EBITDA and NPAT forecasts for CY21 of \$62.4 million and \$41.3 million respectively. This outcome, and the Company's ability to achieve its H1 FY22 Prospectus pro forma EBITDA and NPAT forecasts, remains dependent upon the intensity and duration of COVID-19-related disruptions to trade and the strength of consumer demand once restrictions are eased. BLG expects to update the market further at its AGM on 23 November.

Commenting on the outlook, BLG CEO Rodney Orrock said: "FY21 was a fantastic year for BLG, demonstrating the strength of our customer proposition, growth strategy and ability to execute and be agile in challenging times. While FY22 is off to a challenging start due to the unexpectedly severe COVID-19 disruptions currently impacting the market, our strong team and results focus will hold us in good stead through the next few months until vaccination rates increase and conditions



normalise. In the interim, we have many ways to protect our P&L and our balance sheet remains robust, positioning BLG well for the very strong rebound in trading we expect to occur as families continue to choose trusted retail brands that provide high quality products, great value and convenience."

### Comments on reporting

Pro forma NPAT has been calculated on a basis consistent with the Prospectus and excludes acquisition accounting entries, profit on sale of head office property, benefits from JobKeeper, significant listing costs and employee equity incentive expenses. It has been adjusted for a full year of trading, including the public company costs as disclosed in the Prospectus, as well as a normalised interest cost consistent with the newly negotiated working capital arrangements. This information is presented on a pro forma basis to better demonstrate the underlying trading performance of the business. In addition, pro forma EBITDA also excludes the impact of AASB 16 lease accounting.

Further information on the reconciliation of pro forma to statutory results are contained in pro forma results section of the Directors' Report dated 26 August 2021 and released to ASX on that date.

### Conference call

As previously announced, BLG will host its FY21 full year results presentation via webinar at **9.30am AEST today (26 August 2021)**. The presentation will include a Q&A session for investors and analysts.

Participants can register in advance for the webinar at the following link:  
[https://us02web.zoom.us/webinar/register/WN\\_5L1jHuOiTPCRRO3QXgsbVQ](https://us02web.zoom.us/webinar/register/WN_5L1jHuOiTPCRRO3QXgsbVQ)

### ENDS

This announcement was authorised for release by the Board of Directors of Best & Less Group Holdings Limited.

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### About Best & Less Group:

Best & Less Group (BLG) is a leading value apparel specialty retailer with an omnichannel sales network comprising 245 physical stores and a fast-growing online platform. BLG's aim is to be the number one choice for mums and families buying



baby and kids' value apparel in Australia and New Zealand through its two trusted brands: Best & Less (in Australia) and Postie (in New Zealand).

For more information, visit BLG's investor website at [www.bestandlessgroup.com.au](http://www.bestandlessgroup.com.au)