

ASX Announcement
23 August 2022

Step One Clothing Limited FY22 Result

Step One Clothing Limited (ASX:STP) (“Step One” or “the Company”), a leading online, direct to consumer, innerwear brand, today announces its financial result for the year ending 30 June 2022.

Highlights

- Revenue of \$72.2 million, representing 17.0% growth on prior corresponding period (pcp), 2.4% below prospectus forecast of \$74.0 million and in line with May trading update revised guidance range of \$71.0 million - \$74.1 million
- Revenue in the Australian home market of \$46.6 million, grew 14.6% on pcp and was 4.1% above the prospectus
- Proforma EBITDA of \$9.0 million was 7.8% below pcp of \$9.8 million, and below the prospectus forecast of \$15.1 million. The proforma EBITDA was above the May revised guidance range of \$7.0 million - \$8.5 million
- Statutory EBITDA loss of \$0.3 million which was below prospectus forecast of \$4.6 million profit
- Gross margin remains at a high level of 82.0%, down 0.6% from 82.6% on pcp
- Customer orders exceeded 944,000, representing growth of 13.4% on pcp
- Increase in returning customer purchase rate to 60% from 45% on pcp
- Over 1.1 million customers purchased at least one pair of Step One’s innerwear
- Website visits exceeded 16.5 million with a 5.2% conversion rate

Step One Founder and CEO, Greg Taylor said:

“I am pleased to present Step One’s FY22 result which is above the proforma EBITDA guidance provided during May. As we have previously advised, our financial results have fallen short of our plan largely as a result of headwinds encountered as we executed our international expansion into the UK and USA during the year. Our Australian business continued to perform strongly through the year despite supply chain disruptions and an uncertain consumer environment. We are confident in our ability to deliver on our growth plans as we apply the learnings from this year and as macroeconomic conditions improve. Our brand continues to attract attention and we have now achieved a milestone of 1.1 million customers worldwide and increasing customer purchase repeat rate of 60% (up from 45% in FY21). I am proud of our achievements in product and market innovation such as the launch of our women’s line, introducing adjacencies in sports and thermals which demonstrate Step One’s ability to disrupt the innerwear industry.”

Key Metrics

		FY22	FY21	Variance	
				\$'000	%
Financial					
Revenue	\$'000	72,187	61,717	10,470	17.0%
Gross Margin	%	82.0%	82.6%		-0.6pcp
EBITDA Statutory	\$'000	(282)	3,154	(3,436)	-108.9%
EBITDA Proforma ¹	\$'000	9,032	9,780	(748)	-7.6%
EBITDA Proforma as % of Revenue	%	12.5%	15.8%		-3.3pcp
NPAT Statutory	\$'000	(3,036)	(118)	(2,918)	-2474%
NPAT Proforma ¹	\$'000	5,295	6,514	(1,219)	-18.7%

		FY22	FY21	Variance	
				\$'000	%

Operational

Website Visits	#m	16.5	10.0	6.5	65.0%
Conversion Rate	%	5.2%	7.8%		-2.6pcp
Customer Orders	#'000	944	833	111	13.3%
New Customers	#'000	376	461	(85)	-22.6%
Returning Orders as % of Total Orders	%	60%	45%		15pcp

1. Refer to separate Investor Presentation for reconciliation of Statutory to Proforma amounts and definitions of metric calculations

FY22 Result Overview

Revenue grew 17.0% on pcp driven by strong growth in Australia and positive contributions from the UK and USA vs FY21, albeit lower than expectations.

The financial result incorporates:

- Australian home market sales grew by 14.6%, outperforming the prospectus, while the UK growth was below expectation at 4.6%.
- Challenges with international expansion in the UK and USA, with revenue growth lower than anticipated and higher costs incurred in customer acquisition, marketing and advertising costs and supply chain.
- Strong support for the brand from existing customers with returning customers representing 60% of total orders (FY21: 45%). Recruitment of new customers fell below that recruited in the same period last year. While some of this decline reflects changing trading conditions with respect to COVID-19 and lockdowns, the efficiency (in terms of new customer orders for each dollar of advertising spend) of marketing spend also declined.
- Website traffic increased 65%; however, conversion rates reduced. Notwithstanding, they are still considered above industry averages.
- Gross profit increased \$8.2 million or 16.1% on pcp; however, gross margin reduced to 82.0% from 82.6% in the prior year. The margin reduction occurred in the last six months of the financial year predominantly because of increased logistics costs and the impact of foreign currency rates on product purchases.
- Distribution and logistics for both inbound (factory to warehouse) and outbound (warehouse to customer) have been impacted by cost inflation and shipping delays in a manner not experienced in the first stage of the COVID-19 pandemic.

Operational Review

In FY22, Step One expanded its global business footprint, whilst navigating the impacts of the COVID-19 pandemic on global supply chains. The key initiatives and developments during the period included:

- **Partnerships:** To raise brand awareness, Step One now has limited core products available on Amazon in Australia, UK and USA. This expands customer reach and builds brand awareness.
- **Product evolution:**
 - **Pattern launches:** The Company introduced Step One patterns as a development of its limited release schedule. Overall, these limited-edition pattern colour releases contributed 36% and 37% to revenue in Australia and the UK respectively during FY22.
 - **Women's line:** Step One Women's was launched in January 2022 in Australia and the UK and was quickly sold out. Replenishment of stock was delayed to April due to international supply chain/logistics disruptions. By this time, initial sales momentum was lost and did

not resume to the previous level of daily sales. The Women's line represented 5.6% of total revenue for FY22 (11.8% of 2H22 revenue).

- **Product adjacencies - thermal & sports product launches:** Step One's thermal range was launched in December 2021 with a strong reception in the Northern hemisphere winter season, contributing 0.8% to total revenue in FY22. The Company launched its sports range in March 2022. This is a natural adjacency given Step One's existing affiliation with athletes.
- **Sale Events:** The key sale events are Black Friday/Cyber Monday (BFCM) and the Mid-Year Sale (MYS), previously called End of Financial Year Sale. Both sales continue to grow in their success and, when combined, increased revenue by 57% on the same sale events in FY21.
- **Diversifying supply chain:** To support future growth, Step One has partnered with manufacturing partners in Vietnam and China, maintaining diversification of its supply chain. All facilities are aligned with Step One's ESG focus and are BSCI and SA8000 accredited with fair working conditions and wages.

Australia

Revenue in Australia grew 14.6% on pcp to \$46.6 million, 4.1% above prospectus forecast of \$44.8 million as the brand continues to resonate with Australian consumers. Key performance indicators continue to demonstrate solid growth with website visits in Australia increasing 32% to 6.8 million visits, with a conversion rate of 6.9%. Revenue from the key sale events across the year increased 57% on pcp. Since 2017, over 670,000 customers have purchased Step One's innerwear in Australia. In response to strong demand for colours and prints, Step One will continue to innovate its designs, keeping the product and brand fresh for its loyal Australian following.

United Kingdom

Revenue in the UK of \$22.0 million increased 4.7% on pcp, however was 4.5% below prospectus forecast of \$23.1 million. Trading conditions in the UK were challenging during the period due to the ongoing impacts from COVID-19 and a decline in consumer sentiment. Website visits in the UK increased 65% to 8.0 million visits; however, conversion rates reduced from 7.1% to 4.3%. Revenue for sale events increased 42% on the prior year. There are almost 400,000 customers wearing Step One in the UK.

The UK market has a high demand for colours and prints which will form the basis of continued product iterations going forward. The product value proposition remains appropriate; however, we have modified other elements of the product offering to better align with local conditions, such as pack size and localisation of marketing content.

Step One is now available on Amazon in the UK, thereby expanding customer reach.

United States of America

Revenue of \$3.5 million was 41.9% below prospectus forecast of \$6.1 million. Step One launched in the USA in October 2021 and progressed well through the initial phase of market entry with the product resonating strongly with customers. However subsequent sales momentum fell short of expectations as the USA market entry was slower than experienced in the UK. The delay was attributed to the need to develop more localised content than anticipated. In response, the Company undertook a new content generation strategy with initial deployment in March, along with the engagement of local content management specialists to scale the business and promote the brand locally. Notwithstanding these efforts, it did not scale as expected which resulted in the low ROAS and financial result.

Step One will continue to pursue growth ambitions in the USA, with a particular focus on driving brand awareness. Step One is now available on Amazon in the USA.

Strong Financial Position

Step One is in a strong financial position following its IPO, with closing cash of \$34.2 million and no debt.

Step One has continued to invest in strengthening its inventory position (inventory is not seasonal or perishable) to mitigate against supply chain and shipping issues. As a result, cash flows from operating activities saw an outflow of \$24.8 million which reflected an increase in inventory of \$15.6 million over FY21 to \$25.4 million.

No dividend has been declared for the year ending 30 June 2022.

Outlook

Step One will continue expansion in existing markets while testing other markets. This will involve expanding customer reach using third party platforms such as Amazon and potentially other established retailers with an ecommerce focus. Partnering with third party platforms will assist in building brand awareness and credibility, especially within the UK and the USA.

Step One will expand customer engagement by continuing to develop a strong multi-channel presence. Content will remain 'edgy' and proudly inclusive.

Step One's supply chain is expected to be the subject of continued pressure on costs. There is pressure on the cost of manufactured products (which is purchased in foreign currency) and inbound logistics costs.

Warehouse and distribution costs are similarly expected to remain under pressure from cost inflation within the logistics industry sector.

Expansion in the USA will balance both growth and profitability.

Step One is a consumer product and, while wearing underwear is a need to most people, sales are still subject to consumer sentiment and economic conditions. Due to the current economic uncertainty in all jurisdictions, Step One is not providing guidance for FY23.

-ENDS-

This announcement was authorised for release by the Board of Step One Clothing Limited.

Investor Conference Call & Webcast

An Investor Presentation has been lodged with the ASX today, together with this announcement. Step One will host a conference call and webcast for analysts and investors at 9.30am AEST today.

Conference call registration:

<https://s1.c-conf.com/diamondpass/10023037-samuc0.html>

Live audio webcast registration:

<https://webcast.openbriefing.com/8852/>

About Step One Clothing

Step One is a leading direct-to-consumer online retailer for innerwear. Step One offers an exclusive range of high quality, organically grown and certified, sustainable, and ethically manufactured innerwear that suits a broad range of body types. Step One has transformed the innerwear market with an innovative design and cult-like following and has quickly grown into a multinational company operating in Australia, the US and the UK.

Further information can be found on the Company's website <https://stepone.group/>.

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