

ASX Announcement

30 August 2022

BEST & LESS GROUP FY22 RESULTS

Disciplined execution delivers strong margin performance

Leading value apparel specialty retailer Best & Less Group Holdings Limited (ASX:BST) (**BLG** or **the Company**) today announces its financial results for the 53 weeks ended 3 July 2022 (**FY22**)^{1,2}.

Highlights:

- **Resilient trading performance despite 10.8% lost trading days, with total revenue of \$622.2 million**
- **Like-for-like (LFL) sales³ down by -0.7% vs. PCP and +9.1% vs. FY20**
- **Online sales up +15.6% vs. PCP to \$69.7 million, up +54.2% vs. FY20**
- **Gross profit margin of 49.1%, with operating leverage maintaining a double-digit EBITDA margin of 10.0%**
- **Pro forma EBITDA of \$62.5 million vs. \$71.6 million in FY21 and \$27.0 million in FY20**
- **Strong cash flow and balance sheet with net cash position of \$36.7 million**
- **Final dividend of 12¢ per share fully franked, taking the full year dividend to 23¢ per share and representing a fully franked dividend yield of 8.8%⁴ and 79.8% payout ratio⁵**

BLG Chief Executive Officer, Rodney Orrock, said: "After losing over 21% of total trading days in the first half due to COVID-related store closures, I am pleased to report a strong second half performance. Our team kept their eyes on the ball, doing a great job to control the things that could be controlled, delivering significantly higher sales and strong margins, while continuing to provide superb service to our customers.

"As we move further into an uncertain economic environment, with rising interest rates and cost-of-living pressures placing families under increasing financial strain, we expect an acceleration in the migration to value that is already underway. Our differentiated value proposition of 'twice the quality at half the

¹ Pro forma results are unaudited. See Appendix 4E for Statutory results for the 53 weeks ended 3 July 2022.

² All comparisons relate to the prior corresponding period (PCP) unless otherwise stated.

³ 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.

⁴ Based on the 29 August 2022 closing share price of \$2.62.

⁵ Dividend payout ratio relative to statutory NPAT.

price' and focus on the non-discretionary baby and kids' segments positions us very competitively to provide a family's clothing essentials at an attractive price point.

"In the face of global supply chain disruptions and input cost inflation, we expect the strength of our vertical retail model and the retail experience of our team to shine through. This enables us to continue to take market share, while maintaining gross profit margin and tightly managing costs, delivering continued operating leverage as we grow. Our robust balance sheet and strong cash generation underpins our confidence to pay a final dividend of 12¢ per share fully franked, while continuing to accelerate our investment in BLG's growth and capability."

FY22 financial performance

	FY22	FY21	Var FY22/FY21	FY20 ⁶	Var FY22/FY20
Pro forma financial summary					
Revenue (\$m)	622.2	663.2	-6.2%	625.0	-0.4%
Gross profit (\$m)	305.4	324.5	-5.9%	278.6	+9.6%
Gross profit margin (%)	49.1%	48.9%	+20bps	44.6%	+450bps
Total CODB ⁷ (\$m)	242.9	252.9	-4.0%	251.6	-3.5%
EBITDA (\$m)	62.5	71.6	-12.7%	27.0	+131.5%
EBITDA margin (%)	10.0%	10.8%	-80bps	4.3%	+570bps
NPAT (\$m)	41.1	47.0	-12.6%	16.1	+155.3%
Key metrics					
Number of stores	242	245	-3	250	-8
Online sales growth (%)	+15.6%	+33.5%	-	+56.8%	-
LFL revenue growth (%)	-0.7%	+10.8%	-	+4.8%	-
Trading days lost	9,679	2,830	+242%	3,151	+207%

BLG delivered a significantly improved sales performance in H2, with revenue 16.4% ahead of the first half and above the prior year, as trading conditions and foot traffic improved, particularly in the fourth quarter.

LFL sales were down -0.7% on FY21 and +9.1% on FY20, improving significantly in Q4, up +6.4%.

Growth benefited from a strong performance from BLG's core non-discretionary product lines, which continue to drive significant volume for the business.

Online sales grew by 15.6% on the PCP, with increased conversion driven by an enhanced online customer experience and diverse fulfilment options. The online channel delivered 11.3% of total sales in FY22 (FY21: 9.2%).

⁶ FY20 pro forma results as presented in the Prospectus dated 25 June 2021.

⁷ Cost of doing business (CODB) is calculated by deducting EBITDA from gross profit.

Despite targeted margin reductions to clear seasonal stock in H2, and notwithstanding the impact of COVID and weather-related store closures on sales, BLG's flexible vertical retail model enabled the Company to deliver a full year gross profit margin of 49.1%, up +20bps on FY21.

As with all retailers, BLG has experienced cost inflation in key commodities, materials and components. The Company has taken action to protect margins, including selectively increasing prices in line with its 'good, better, best' product and pricing strategy, negotiating cost mitigation with suppliers, and rationalising materials and product lines.

The Product Lifecycle Management (PLM) solution implemented in October 2021 has enabled a more granular examination of the cost components within each product, which has enabled better informed product management decisions.

FY22 pro forma EBITDA of \$62.5 million was down year-on-year, primarily due to the large number of lost trading days and subsequently reduced sales revenue. Effective supply chain management, retail price increases and a tight focus on managing CODB enabled BLG to preserve a strong double-digit EBITDA margin of 10.0%.

Pro forma NPAT was \$41.1 million (FY21: \$47.0 million).

Cash flow, balance sheet and dividend

BLG reported pro forma operating cash flow of \$49.4 million in FY22 and a net cash position of \$36.7 million at the year end.

BLG rebuilt its inventory position during the year to offset any potential impact of supply chain disruptions and ensure adequate stock levels ahead of key selling periods. Agile inventory management delivered a year-end inventory balance of \$95.0 million (FY21: \$80.5 million), including new stock on water of \$19.1 million, with a similar number of units on hand as at end FY21.

BLG maintained its strong focus on clear-as-you-go inventory management which maintained aged inventory in line with recent levels which it expects to continue moving forward. As at 22 August 2022, aged inventory represented 1.7% of total inventory (22 August 2021: 1.8%).

The Board is pleased to declare a fully franked final dividend of 12¢ per share, bringing the full year dividend to 23¢, which represents a fully franked dividend yield of 8.8%⁸ and payout ratio of 79.8%⁹. The record date is 16 September 2022, and the payment date is 30 September 2022.

⁸ Based on the 29 August 2022, closing share price of \$2.62.

⁹ Dividend payout ratio relative to statutory NPAT.

Operational and strategic highlights

During the year, BLG made good progress on its strategic growth priorities. This included investing in the online sales platform and adding new fulfilment options such as 'click and collect' and 'ship from store', which improved online capacity and service by fulfilling online orders from select Best & Less stores closer to the customer's location.

The Best & Less mobile app has continued to deliver improved online conversion and increased session duration and contributed to loyalty program members growing by over 170,000, or 10.1%, to ~1.9 million across Best and Less and Postie at year end.

BLG opened six new stores and relocated four stores in FY22, including two stores with expanded floor space. Nine stores were closed during the period (including five which were planned closures), as the Company remains willing to discontinue leases where there is not a compelling commercial rationale.

Trading update and outlook

Through eight weeks of trading in H1 FY23, total sales were +38.0% on the PCP. LFL sales were +1.4% overall, with store LFL sales +7.5% and online sales -29.1%, noting that sales in the PCP were impacted by lockdowns and trading restrictions in several states.

While foot traffic remains below pre-COVID levels, it is recovering. Customer conversion rates remain elevated and average selling prices (ASP) are increasing, driving sales growth and mitigating input cost price increases. BLG expects the current inflationary environment to accelerate the migration to value that is already underway. BLG expects Australian families facing cost of living pressures to increasingly prefer BLG's specialty value offer, with the Company's unique value proposition of 'twice the quality at half the price', low ASP of \$8.33, and 90% of items sold being priced at under \$20.

In FY23, BLG will be focused on executing its growth strategy, including expanding its store footprint. The Company already has agreements in place to open 11 new stores during the year, with three additional stores which are being relocated to larger sites.

The Company will continue to focus on growing market share in its core baby, kids' and womenswear categories, while maintaining its gross profit margin and tightly managing costs and inventory in response to continued inflationary pressures and supply chain disruptions.

Given ongoing economic uncertainty, BLG is not providing sales or earnings guidance at this time.

Conference call

BLG will present its FY22 results via webinar at **9.30am AEST today (30 August 2022)**. 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://us06web.zoom.us/j/86322328489?pwd=SWZnaURXcVRrOSTtN3k4U1psZFJPUT09>

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 244¹⁰ 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

¹⁰ As at 25 August 2022.