booktopia
An e-commerce leader

ASX Announcement
28 November 2022

**Chairman's Address – Chris Beare**
**2022 Annual General Meeting**
**Monday, 28 November 2022 – 2:00pm AEDT**

Welcome everybody to today's Booktopia Group Limited AGM.

I would like to begin by acknowledging the Wangal clan of the Eora nation who have been the traditional custodians of the land where we are meeting today for some 20,000 years. We pay respects to their elders past, present and emerging.

Before moving to the formal business of the meeting I would like to provide an overview of our performance in the year 30 June, 2022 as well as to give an update on our progress in the current year and some of our expectations for the full year and beyond.

Performance in FY22

As I explained in our annual report, the financial year under review was one of the most challenging in Booktopia's 18-year history. Like all e-commerce companies we have at times struggled to keep pace with the constantly evolving demands placed on us by the pandemic and the rapidly changing landscape that has emerged in the post-COVID economy.

While there have been many challenges over the last 18 months, there have also been several successes.

Our underlying brand and business remain strong. We are still the dominant online book retailer in the country and have a loyal customer base measured in the millions. Importantly, we remain confident that if we back out the boost to our online revenue through the pandemic, we can continue to deliver sustainable sales growth and improve our profitability and returns to shareholders.

Some of the key highlights for the year include a 7.5% increase in revenue to $240.8 million and a 4% increase in the number of units shipped to a record 8.5 million.

We also saw solid improvement across a number of key metrics with our average order value, average selling price and average annual customer spend all up compared to the previous year.

But we were unable to translate our top-line results into increased earnings with our underlying EBITDA falling 54% to $6.2 million as a result of increased costs.

This deserves more explanation.

The financial year started strongly, and we were optimistic of being able to maintain the momentum we had built in the years immediately before the pandemic and during the pandemic.

However, it wasn't long before serious issues emerged, with our Lidcombe Customer Fulfilment Centre overwhelmed by the impact of the extensive lockdowns and widespread COVID infection rates in Sydney.

We simply didn't have access to the staff required to meet the demand created by the lockdowns. Faced with an explosion of orders and significant staffing issues, we took the prudent action to wind back our marketing in the lead-up to Christmas to make sure we were doing the right thing by our customers and not selling books we had limited capacity to deliver.

Clearing the backlog of orders and re-stocking the warehouse was expensive and time-consuming and resulted in significant additional costs compared to previous years. Our distribution wages per unit shipped increased from $1.42 in FY21 to $1.65 in FY22.

We have learnt from this and have taken action to improve our future performance. This has meant our profit this year has been further eroded as we have recognised several one-off costs.

Following a second-half review of overhead expenditure, we undertook a number of redundancies which cost $1.3 million. This included the departure of Tony Nash as an executive in the Company.

We also accounted for $2.8 million of accelerated depreciation associated with the change in useful lives of certain items of property, plant and equipment in part as a result of our decision to move to a new customer fulfilment centre when our lease expires at Lidcombe.

We wrote off $1.7 million in costs associated with M&A activity and wrote down the value of our Welbeck investment by $2.1 million.

Additionally, we made a provision for $6 million in potential payments related to an agreement reached with the ACCC to jointly seek orders from the Federal Court relating to our returns policy.

While extremely disappointing to have so many one-off items, we decided to bring each of them to account and provide the company with a clean slate on which to move forward.

While the results for the year were not what we had hoped or planned for, they provided a range of learnings that we are using to position the business to meet the challenges and opportunities that lie ahead.

One of the most critical decisions we have taken is to re-locate our core distribution functions from the Lidcombe facility. With the growth we have experienced in the last few years, it is clear that staying at Lidcombe will not allow us to achieve the efficiency we need now or in the future.

Subsequent to the end of the financial year we signed a lease for a new CFC at South Strathfield in Sydney's west. The new 20,000 sqm facility will allow the company to distribute larger volumes and operate at a lower cost and should be operational in time for Christmas 2023.

This is one of a number of operational and efficiency improvements we are undertaking to help us continue to deliver on our customer obsession and to respond to changes in consumer behaviour in a post-COVID economy.

<u>Trading update for FY23</u>

Trading conditions in the first quarter of FY23 remain volatile with various economic headwinds impacting consumer behavior. The online retail market, in particular, continues to experience a high level of uncertainty as the economy responds to a post-COVID era and adapts to an inflationary economy globally. In addition, consumer behaviour is adapting to the post-COVID business environment and whilst we are no longer in a heavily COVID restricted marketplace, the world has yet not returned to pre-COVID trading conditions.

Current year trading (FY23) volumes and revenues are down around 20% from the same period last year. Whilst this is below our expectations, we had budgeted for a reduced first quarter compared to last year, which started very strongly due to lockdowns across Greater Sydney, New South Wales and other regions. During that time (July – Oct 2021), the business reduced advertising spend and increased the resources in the CFC to meet the demands of customers.

On a comparative basis we expect revenue to recover somewhat in the current quarter, but the full year is still likely to be down on last year's pandemic-boosted result.

Booktopia has two critical sales periods. We have entered the Christmas sales period well-equipped to meet customer needs, and our early signals are that it is tracking to expectations. We have also reviewed the upcoming academic season (Feb-Mar 2023), and we expect demand to be in line with 2022 rather than the 2021 level, which was an anomaly year for domestic students attending University studies.

From a cost perspective, our advertising spend remains focused on maximising sales and revenue, but paid search is considerably more expensive than we have historically seen. In addition, the existing CFC requires significant additional resources to manage the workload and ensure we meet our customer promise.

As a result of the additional costs and the lower revenue, the profitability of the business remains challenging. We have a number of plans to address this but we do not expect to see fundamental change until we deliver operational improvements and improved margins as a result of the move to the new CFC in early FY24.

Throughout this period, the business has been seeking external funding for the fit-out of the new CFC and we have been in discussions with a number of providers. Closing this out has been hampered by the EGM and Board activity, and it is still not complete. It will be the responsibility of the new Board to secure appropriate funding to move to the new CFC.

We will continue to update the market about the funding for the new CFC and our general trading conditions as appropriate.

<u>Board and CEO update</u>

As you are aware, this meeting will be my last after six years as the Chairman of Booktopia.

I'm leaving as an outcome of a shareholder proposal from Tony Nash Enterprises to call an Extraordinary General Meeting to remove me and fellow Director Su-Ming Wong as Directors of the Company. Together, we discussed a range of transition proposals with Tony Nash Enterprises, but the only plan we were able to agree on was for Su-Ming Wong to step down immediately and for me to stay until this meeting. The EGM was then called off.

Separately, my fellow directors Fiona Pak-Poy and Judy Slatyer proposed ways to ensure an independent Board and a good transition but decided not to continue as Board Directors after being unable to reach agreement on these issues. They stayed on for a transition period and resigned at the opening of business today.

Let me state strongly that during this disruptive period, all Directors were working to achieve the best result for the company and its shareholders and we had no fundamental difference on strategy or direction.

I would like to thank my fellow Non-Executive Directors, Su-Ming, Judy and Fiona for their professionalism and dedication to Booktopia during difficult times.

The Company is well advanced in re-building the Board and expects shortly to announce the appointment of new Directors to join Tony Nash and Steven Traurig on the Board. I will stay on as Chairman and resign from the Board once a new Chair is appointed.

The Company is also proceeding well in its search for a new Chief Executive Officer and that person's appointment will be made by the new Board. Geoff Stalley, our former Chief Financial Officer, will continue acting in the CEO role until the appointment is complete.

Closing remarks

I wish Tony and Steve, the new Directors, the new Chairman, and all the people at Booktopia a successful future. It has been a privilege to be part of the journey.

I would like to take this opportunity to thank Geoff and the executive team at Booktopia for their tireless work this year in very difficult circumstances.

Geoff and I also thank the staff of Booktopia for their efforts throughout the year. In the face of a rapidly changing environment and significant internal and external challenges they have remained focused on delivering a great book-buying experience for our customers. Ultimately, it is this commitment that will ensure Booktopia's long-term success.

**Authorised for lodgment by Chris Beare, Chairman on behalf of the Board.**

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**About Booktopia**
Booktopia Group is the largest Australian-owned online book retailer by market share. It is an Australian home-grown business having sold items to more than five million customers since establishment, with $1 billion in sales since its 2004 inception. Since FY2012, Booktopia Group has sold more than 41 million items to its growing

customer base. While approximately 90% of the items the Company sold in FY2020 were books, Booktopia Group also sells eBooks, DVDs, audiobooks, magazines, maps, calendars, puzzles, stationery and cards. The company was listed on the Australian Securities Exchange (ASX) in December 2020 after completing a $43.1 million capital initial public offering.