

ASX Announcement

21 February 2023

BEST & LESS GROUP HALF YEAR RESULTS

Laying the foundations for long-term growth

Leading value apparel specialty retailer Best & Less Group Holdings Limited (ASX:BST) (**BLG** or **the Company**) today announces its financial results for the 26 weeks ended 1 January 2023 (**H1 FY23** or **H1**)¹.

Highlights:

- **Total revenue up +13.0% to \$324.8 million**
- **Like-for-like (LFL) sales² down -4.9%**
- **Gross profit margin 47.1%**
- **Pro forma EBITDA of \$22.1 million**
- **Pro forma NPAT of \$13.7 million**
- **Net cash of \$14.7 million**
- **Interim dividend of 8.0¢ per share fully franked, representing an annualised fully franked dividend yield of 9.6%³**
- **Inventory well positioned, with summer stock trading well in H2**
- **Through seven weeks of H2, sales are up +3.8%, with LFL sales +3.9%**
- **Strategy and structure in place to deliver sustainable growth**

BLG Executive Chair, Jason Murray, said: "While trading conditions were inconsistent in the first half, our team remained committed to delivering exceptional value and service for our customers. Our core non-discretionary and baby product lines continued to perform well, reflecting the strength of our differentiated value proposition of 'twice the quality at half the price.'"

"Having successfully transformed the business to an everyday low price specialty value retailer, we are laying the foundations for the next phase of growth. We are evolving to a 'one company, two brands' structure, which will enable us to operate even more efficiently as we continue to invest in enhancing our omnichannel capabilities and rolling out new stores. This includes six in the second half, which will see our store count grow to 251 across Australia and New Zealand by the end of FY23."

¹ All comparisons relate to the prior corresponding period (pcp) unless otherwise stated.

² 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.

³ Based on the 20 February 2023 closing share price of \$1.675 and assuming the interim dividend represents 50% of the full year's dividend payment.

“Despite near-term macroeconomic headwinds, we expect a migration to value and feel confident that the flexibility provided by our vertical retail model will enable us to tightly manage our inventory and costs to deliver our H2 pro forma NPAT guidance of between \$18 million and \$20 million.”

H1 FY23 pro forma financial performance

	H1 FY23	H1 FY22	Var
Revenue (\$m)	324.8	287.5	+13.0%
Gross profit (\$m)	153.0	146.0	+4.8%
Gross profit margin (%)	47.1%	50.8%	-370bps
Total CODB ⁴ (\$m)	130.9	115.2	+13.6%
Pro forma EBITDA (\$m)	22.1	30.8	-28.2%
Pro forma EBITDA margin (%)	6.8%	10.7%	-390bps
Pro forma NPAT (\$m)	13.7	20.1	-31.8%
Key financial metrics			
Number of stores	245	245	-
Online sales growth (%)	-29.8%	+24.0%	
LFL revenue growth (%)	-4.9%	+0.1%	

BLG delivered total revenue of \$324.8 million in H1, +13.0% ahead of the prior corresponding period (PCP). LFL sales were down -4.9% on the PCP, with store LFL store sales down -0.9% and online sales down -29.8%.

Given the weaker consumer demand experienced in H1, BLG took action to reduce inventory risk and strengthened price perception through targeted price reductions in key volume lines, which impacted gross margin percentage. Notwithstanding this, the average sale price (ASP) for the half was +9.5% higher than the PCP as a result of our ‘good, better, best’ pricing hierarchy.

A combination of softer than expected sales, lower gross profit margin percentage and higher costs relative to the PCP, which featured widespread store closures, resulted in pro forma EBITDA of \$22.1 million and pro forma NPAT of \$13.7 million.

Cash flow, balance sheet and dividend

BLG reported pro forma operating cash flow of \$6.3 million in H1 and had a net cash position of \$14.7 million at the period end. First half cash flow was impacted by higher inventory levels and \$5.4 million in capital expenditure (net of landlord contributions) of which \$3.9 million was invested in 26 new and refurbished stores, and \$0.5 million on the new point of sale (POS) system.

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

BLG's inventory remains well positioned to sell through in H2, noting that nearly half of total inventory is year-round product which is not seasonal in nature. Total inventory on hand at the end of the half was +8.9% higher than PCP in dollar terms at \$104.4 million, however with 5% fewer units due to changing product mix and the impact of cost increases. Aged stock remained low at 2.2% of total inventory at the period end.

The Board is pleased to declare a fully franked interim dividend of 8.0¢ per share. This represents 89% of statutory NPAT and 73% of pro forma NPAT. This is above BLG's dividend policy of paying 60-80% of statutory NPAT and reflects the Board's confidence in the Company's financial position, cash generation capability and outlook. The dividend represents an annualised fully franked dividend yield of 9.6%⁵. The record date is 14 April 2023, and the payment date is 28 April 2023.

Strategy and operational update – from build to grow

Having successfully transformed the Company prior to our July 2021 IPO from a high-low retail model to an everyday low price (EDLP) specialty value retailer, BLG has been laying the foundations for its next phase of growth.

The execution of this 'build phase' has come at the same time as managing external shocks in the form of the COVID-19 pandemic, global supply chain disruptions, severe weather events and the subsequent inflationary environment. The Company is implementing a new 'one company, two brands' structure, which will embed new ways of working and streamline operations, with a restructure of BLG's merchandising operations also underway.

As BLG prepares to move into the next growth phase of its strategic evolution, it remains committed to accelerating its investment in online, including a new customer data platform, new mobile app and consumer website design. BLG is completing the rollout of its new POS system in CY23 and has commenced a review of its core planning, merchandising and finance systems, which will underpin the next phase of growth.

Moving forward, BLG's growth is expected to be driven by its six growth priorities, being continued market share growth in baby, kids and womenswear, achieving above market online sales growth and enhancing the store network, underpinned by supply chain transformation. In the second half, BLG will open six new stores, including one in the Macquarie Centre in Sydney.

BLG is committed to investing in leading talent to build capability and drive growth, and is pleased to announce the creation of two new senior roles which will report directly to the CEO. Bridie Commerford joins as Chief Digital and Marketing Officer from The Travel Corporation, where she led digital and

⁵ Based on the 20 February 2023 closing share price of \$1.675 and assuming the interim dividend represents 50% of the full year's dividend payout.

marketing, having previously worked for several large global retail and FMCG companies. Bruno de Sousa joins as Group Head of Strategy and Insights from DoorDash, having previously worked in various strategy roles within Woolworths Group, most recently at WooliesX.

BLG recently announced that Chief Executive Officer Rodney Orrock will depart the business at the end of his current period of medical leave on 28 February 2023. While Rod continues to make good progress in his treatment and recovery from lymphoma, he has decided to step down to prioritise his long-term health, a decision the BLG Board fully supports. The external search process for a permanent CEO is progressing well, with Jason Murray to remain as Executive Chair until a new CEO starts in the role.

Trading update and outlook

Through seven weeks of trading in H2 FY23, total sales are up +3.8%, with LFL sales up +3.9%, noting the recent impact of extreme weather in New Zealand and the Omicron outbreak in the PCP. LFL store sales are +7.0% and online sales are -23.3%.

Consumer shopping behaviour continues to normalise towards pre-COVID levels, with in-store traffic increasing while online sales, conversion and units per transaction are continuing to moderate in line with historical norms. ASP growth is trending in line with H1.

With the benefit of returning supply chain stability, inventory is well positioned and BLG is optimistic about the upcoming key Easter and Mother's Day periods.

There is no change to the Company's guidance provided in its 25 January 2023 trading update, which stated that assuming no material deterioration in economic conditions that impacts sales, BLG expects to deliver a second half pro forma NPAT of between \$18 million and \$20 million. This compares to H2 FY22 reported pro forma NPAT of \$21.4 million, which included a \$1.6 million NPAT contribution from the 27th trading week in that half.

Results presentation and conference call

BLG will present its H1 FY23 results via webinar at **9.30am AEDT today (21 February 2023)**. 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_S9u5qskPTWGUCFHHZ9Dqtw

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 an 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