Appendix 4E

(Rule 4.3A)

BabyBunting

For personal use only

Baby Bunting Group Limited

ABN 58 128 533 693

For the period ended: 53 weeks ended 2 July 2023

Previous corresponding period: 52 weeks ended 26 June 2022

Results for announcement to the market

Statutory Financial Results	2023 $'000	2022 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	524,281	507,274	17,007	3.4%
Net profit from ordinary activities after tax (attributable to members)	9,854	19,521	(9,667)	(49.5%)
Net profit attributable to members	9,854	19,521	(9,667)	(49.5%)

Pro Forma Financial Results	2023 $'000	2022 $'000	Mvmt $'000	up/(down) %
Revenue from ordinary activities	515,790	507,274	8,516	1.7%
Net profit from ordinary activities after tax (attributable to members)	14,503	29,573	(15,070)	(51.0%)
Net profit attributable to members	14,503	29,573	(15,070)	(51.0%)

Pro forma financial results have been calculated to exclude certain items contained in the following table that reconciles the statutory results to pro forma financial results for the period ended 2 July 2023 and 26 June 2022 and provide further detail on pro forma adjustments. This has been done to more clearly represent the consolidated entity's underlying earnings (noting that this financial information has not been audited in accordance with Australian Auditing Standards).

Period ended 2 July 2023 $'000	Sales	NPAT
Statutory results	**524,281**	**9,854**
Employee equity incentive expenses[1,2]	–	965
Transformation project expense[3]	–	4,745
Impact of week 53[4]	(8,491)	(412)
Tax impact from pro forma adjustments[5]	–	(649)
Pro forma results	**515,790**	**14,503**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the reporting period. This also includes a write-back of the 2020 (EPS CAGR) expenses ($1.673 million) and the 2021 (EPS CAGR) expenses ($0.275 million) and the payroll tax paid on the plans as the CAGR hurdles as defined under the LTI plan, are unlikely to be achieved.
2. The Company issued 277,182 shares under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.782 million).
3. The Company continued its investment in transformation projects and during the period the Company incurred ($4.745 million) non-capital costs associated with the implementation of a time and attendance system and the initial planning phase of a replacement of its enterprise resource planning (ERP) and point-of-sale systems. Other transformation project expenses include external consultant costs associated with project management costs to deliver the transformation projects.
4. FY2023 was a 53 week retail financial year. Week 53 revenues and expenses have been excluded to enable comparison to the FY2022 full year financial period (52 weeks) and prior years.
5. Tax impact from pro forma adjustments includes income tax expense relating to performance rights vesting under the Company's Long Term Incentive Plan ($0.864 million).

Appendix 4E
continued

Pro forma financial results (continued)

The following table reconciles the statutory to pro forma financial results for the year ended 26 June 2022 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 26 June 2022 $'000	Sales	NPAT
Statutory results	**507,274**	**19,521**
Employee equity incentive expenses[1,2]	–	9,330
Transformation project expense[3,4]	–	4,668
Tax impact from pro forma adjustments[5]	–	(3,946)
Pro forma results	**507,274**	**29,573**

1. Expense includes $8.570 million for the amortisation of performance rights (LTI) on issue in the reporting period and the associated payroll tax costs of the plans.
2. The Company issued 135,051 shares under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.760 million).
3. The Company is undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the year, the Company incurred ($3.242 million) non-capital costs associated with the implementation of a Loyalty system, People systems and digital technology assets.
4. Other transformation project expenses ($1.426 million) include external consultant costs associated with project management to deliver the transformation projects described in Note 3 above. The non-capital cost of external consultants associated with running the selection and planning for the integration of the new systems are not related to the day-to-day operations or financial performance of the business. These project costs cease at project completion.
5. Tax impact from pro forma adjustments includes income tax benefit relating to performance rights vesting under the Company's Long Term Incentive Plan ($2.317 million).

Dividends

	Amount per security (cps)	Franked amount
Dividends paid		
Final 2022 dividend – paid 9 September 2022	9.0	100%
Interim dividend – paid 17 March 2023	2.7	100%
Dividends determined		
Final 2023 dividend	4.8	100%
Record date for determining entitlements to the dividend	25 August 2023	
Date dividend is payable	8 September 2023	

The Company does not currently offer a dividend reinvestment plan.

Commentary on results for the period

For further explanation of the statutory figures above refer to the accompanying financial report for the period ended 2 July 2023, which includes the Directors' Report. The Full Year Results Presentation released in conjunction with this Results Announcement provides further analysis of the results.

Net tangible assets per ordinary share

	2023 $	2022 $
Net tangible asset per ordinary share[1]	0.41	0.48

1. Net tangible assets per ordinary share includes the Right-of-use assets as per AASB16.

Other information

Independent Audit by Auditor

This report is based on the consolidated financial statements which have been audited by Ernst & Young.

This page has been left blank intentionally.

BabyBunting

Annual Report 2023

Baby Bunting Group Limited
ABN 58 128 533 693

Contents

4 Performance overview
6 Chair’s report
9 Store network
10 Sustainability
12 The board
15 Corporate governance statement
30 Directors’ report
47 Remuneration report
68 Auditor’s independence declaration
69 Financial report
113 Directors’ declaration
114 Independent auditor’s report
118 Shareholder information
121 Corporate directory

The 2023 Baby Bunting Annual Report reflects Baby Bunting’s performance for the 53 week period from 27 June 2022 to 2 July 2023.

The Baby Bunting Group Limited Annual Report is available online at investors.babybunting.com.au. Hard copies can be obtained by contacting the Company’s share registry.

Vision: to be the most loved baby retailer for every family, everywhere.

Notice of 2023 Annual General Meeting

10.00am (Melbourne time) Tuesday, 10 October 2023.

Further details will be contained in the Notice of Annual General Meeting that will be made available in September 2023.

About Baby Bunting

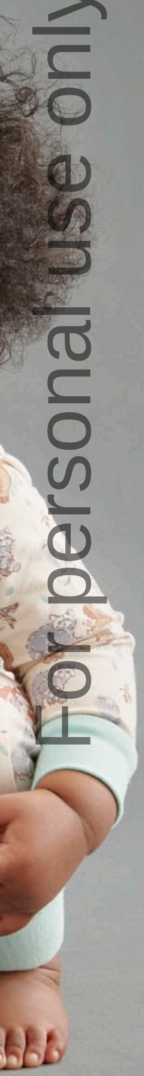
Baby Bunting Group Limited is Australia's largest specialty maternity and baby goods retailer. We operate 70 stores in Australia and an online store, with a National Distribution Centre based in Dandenong South, Victoria. We have a network plan of over 110 stores throughout Australia.

Baby Bunting opened its first store in Auckland, New Zealand in August 2022 and expects to open further stores in the year ahead with a network plan of more than 10 stores in New Zealand.

Baby Bunting's marketplace, which launched in June 2023, expands the range of products available to consumers by enabling selected third-party sellers to sell curated products on babybunting.com.au.

We have around 1,680 team members across our 71 stores, 2 distribution centres and the Store Support Centre.

Further information about Baby Bunting is available at investors.babybunting.com.au.



Core Purpose:
to support new and expectant parents in the early years of parenting.

Supporting new and expectant parents for more than 40 years.

Performance overview

$515.8m
Sales (52 weeks)

-3.6%
Comparable Store Sales Growth

1.7%
Sales Growth (52 weeks)

37.4%
Gross Margin
Down 118 bps

$31.2m
Pro forma EBITDA (Pre-AASB 16)
Down 38.2%

20.0%
Online Sales as % of total sales
Down 220 bps

72
Net Promoter Score
(at the end of year)
The same score as FY22

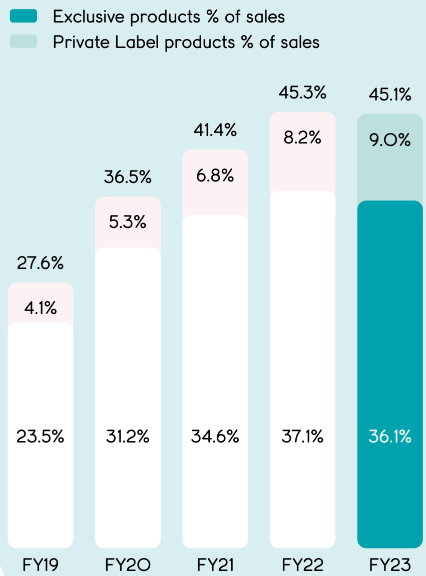
45.1%
Private Label and Exclusive Products (% of total sales)

Down 20 bps

Private label now at 9.0% of sales

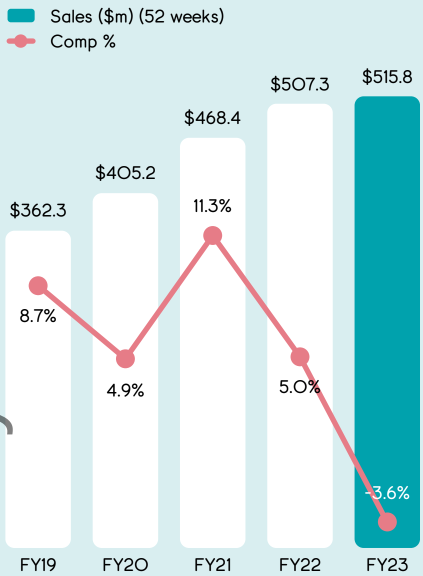
Exclusive products now at 36.1% of sales

Private label & exclusive products

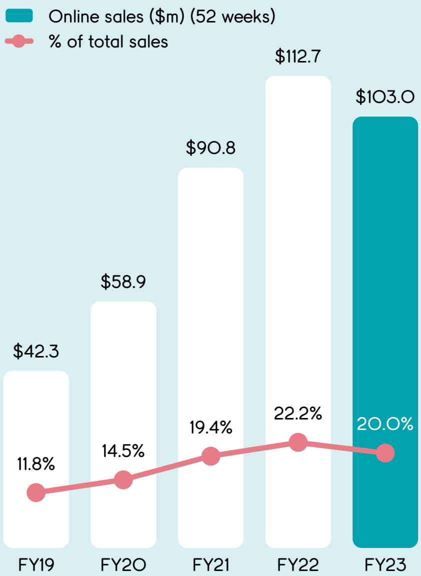


Refer to Section 2.5 of the Directors' Report for further discussion on pro forma financial information and a reconciliation to statutory results.

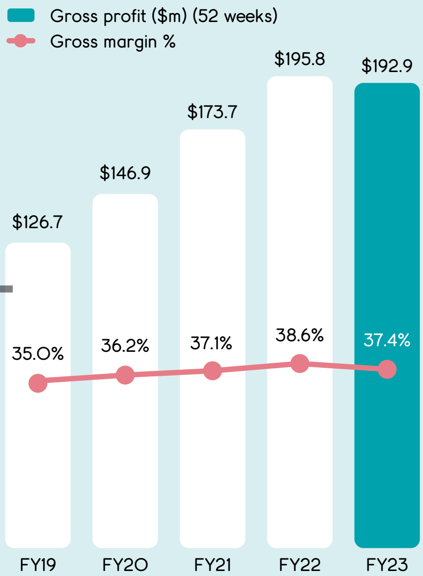
Sales ($m)



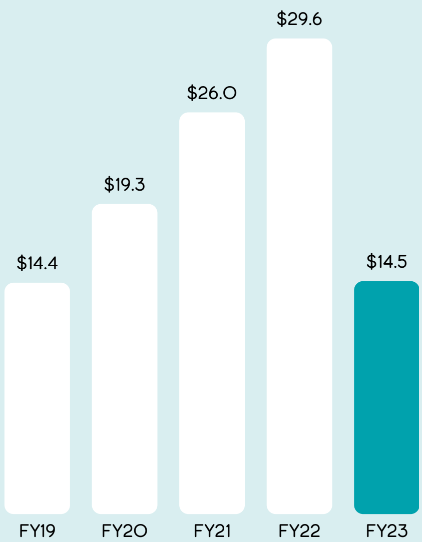
Online sales ($m)



Gross profit ($m)



Pro forma NPAT ($m)



Baby Bunting marketplace launched

Expanded the product range for our customers, with over 5,000 new SKUs now online and more to come

Transformation program progressed

New payroll system deployed and new time & attendance system in final stages of roll-out

New Zealand operations growing

Our first store opened in Auckland in August 2022 with 3 more stores to open in FY2024

Store network growth – now 71 stores

- 6 new Australian stores opened during FY2023
- 2 new Australian stores to open in FY2024
- 1 Australian store relocated
- Australian network plan of over 110 stores
- First New Zealand store opened in August 2022
- 3 new stores in New Zealand to open in FY2024
- New Zealand network store plan of over 10 stores

Chair's report

Melanie Wilson,
Chair and Non-executive Director

Dear Shareholder

The 2023 financial year has been marked by a series of significant events. Towards the start of the year, we celebrated the opening of our first store in New Zealand. Then in June 2023, we successfully launched Baby Bunting's marketplace which enables third-party sellers to offer a curated product range on babybunting.com.au. A planned succession process announced in February 2023 saw Matt Spencer step down as Chief Executive Officer in June after more than 11 years with the subsequent appointment of Mark Teperson as Chief Executive Officer, commencing in October 2023.

Trading conditions were volatile during the year, which saw impacts to gross profit margin in the first quarter, as well as difficult retail trading conditions in the second half with consumer sentiment turning negative as cost of living pressures became more prominent in the final quarter.

Notwithstanding the challenging conditions, Baby Bunting finished the year with a strong balance sheet and significant headroom in its finance facility and in its banking covenants.

Our pro forma net profit after tax for the year has declined by 51.0% to finish at $14.5 million on a 52-week basis. The decline in net profit is disappointing and it underscores the need for us to keep a strong focus on our structure and costs as we head into a more uncertain trading environment.

We have undertaken actions to optimise our cost structure by identifying inefficiencies, restructuring our Store Support Centre, and implementing targeted measures to drive cost savings. Our cost optimisation strategy is focused on streamlining operations, improving productivity, and maximising resource utilisation.

The Baby Bunting brand continues to be the strongest in the Australian nursery sector and our plans for the year ahead will see us focused on providing great value and range to our customers while also looking to the future growth of the organisation.

FY2023 financial results

FY2023 was a 53-week retail financial year (27 June 2022 to 2 July 2023). Pro forma financial results exclude week 53 sales and expenses to enable a comparison to prior 52-week financial years.

The pro forma financial results for FY2023 consisted of:

- growth in total sales of 1.7% to $515.8 million;
- a decrease of 0.5% in the total number of transactions on the prior 52-week period;
- online sales of $103.0 million (a decline of 8.6%), representing 20.0% of total sales; and
- gross profit margin of 37.4% (a decline of 118 basis points) and gross profit of $192.9 million.

Statutory net profit after tax was $9.9 million, down 49.5% on the prior year.

On a pro forma basis, EBITDA was $31.2 million, down 38.2% on the prior 52-week period and pro forma EBITDA margin decreased 390 basis points to 6.0%.

Pro forma NPAT was $14.5 million, down 51.0% on the prior 52-week period.

A reconciliation between the statutory and pro forma financial results is set out Section 2.5 on pages 33 to 36 of the Directors' Report.

Baby Bunting finished the year with net debt of $6.2 million and with significant capacity in the Company's $70 million banking facility. There is significant headroom in the Company's debt covenants for the year ahead.

Inventory levels have been well-managed and finished around the same level as the previous year, even allowing for 7 new stores and the New Zealand distribution centre.

Noting the Board's target of paying dividends equivalent to approximately 70% of the Company's pro forma NPAT, the Board has approved a final dividend of 4.8 cents per share fully franked. This takes the total dividend payment for the year to 7.5 cents per share.

Executing on our growth strategy

Our expansion into New Zealand continued through the year with the opening of our first store at Albany in Auckland. In the coming financial year, we expect to open two additional stores in Auckland and a store in Christchurch. The expanded store network will leverage the investments we have already made in New Zealand and will continue to build brand awareness.

We continued to grow our Australian store network, with 6 new stores opened during the year including another regional store in Orange (NSW). We remain committed to our store network plan of more than 110 stores in Australia and 10 in New Zealand. In the year ahead, we will be focused on ensuring store economics are aligned to trading conditions.

Baby Bunting's marketplace offer demonstrates our commitment to innovation and meeting the evolving needs of our customers. The marketplace enables third-party sellers to offer a curated range of products on babybunting.com.au. Our approach is to focus on sellers who have products that complement Baby Bunting's existing first party range of products. With more than 5,000 third-party SKUs now available on the marketplace, consumers have access to a broader selection of maternity, baby apparel, furniture, rugs and bedroom accessories, toys for older children and much more. The marketplace presents an exciting avenue for revenue diversification and offers growth potential in the years to come.

Leadership changes at Baby Bunting

In February 2023, we announced details of a leadership succession plan and Matt Spencer stepped down as Chief Executive Officer in June 2023 after almost 11 years in the role. With Matt's departure, we bid farewell to a strong leader who played an instrumental role in shaping the Company's strategy and culture. We extend our sincere gratitude for his dedication and commitment to Baby Bunting.

Chair's report continued

The Board selected Mark Teperson to become Baby Bunting's next Chief Executive Officer. Mark is a highly regarded retail leader with more than 20 years' experience in retail. He has a proven record of driving exceptional results through re-imaging omni-channel customer experience, harnessing the power of data and technology and building strong high-performance cultures. Mark will bring a fresh perspective and the Board is confident that under his leadership, Baby Bunting will build on its existing foundations and move into the next phase of sustainable growth.

Darin Hoekman, Baby Bunting's Chief Financial Officer, has been Acting Chief Executive Officer since June 2023 in advance of Mark commencing in October 2023. Darin, with the balance of our experienced executive team, are focused on implementing the changes required to adjust to the current trading conditions.

Transformation agenda and organisational change

We first defined our transformation agenda in the 2018 financial year. It comprised a number of large investments to overhaul or modernise the business across systems, branding and supply chain. Over the years, this agenda has involved launching a new technology stack to provide a strong foundation for our online offer, implementing a new loyalty platform and deploying new payroll and time and attendance systems. The rollout of the new time and attendance system will be completed in the coming months.

The final project on the transformation agenda is the implementation of new enterprise resource and planning (ERP) and point of sale (POS) systems. Planning for this project has progressed throughout the 2023 financial year. Work will continue in the period ahead, although we will be moderating our levels of investment in the short-term to manage costs at an appropriate level.

In response to current and anticipated trading conditions, we have committed to effectively manage our cost base to ensure Baby Bunting's costs are better aligned to a period where revenue growth may be constrained to ensure sustainable long-term growth.

The year ahead

We remain committed to providing an exceptional customer experience and great products and service. Our purpose remains to support new and expectant parents in the early years of parenting.

The return on investment in our store network remains strong. Our store network plan growth remains a key part of our strategy and we have plans to open five new stores, which includes three stores in New Zealand which will assist us to build operational efficiencies in that market.

We will also continue to focus on the fundamental elements of our retail proposition. We will be working to leverage our leading brand position to maintain and build our market share through the economic cycle. The launch of Baby Bunting's marketplace will support this effort by bringing a wider range of curated products to Baby Bunting customers and further leveraging the leading position that babybunting.com.au has in the market.

We have controlled our inventory levels well into the start of FY2024 and will be targeting working capital management during the year. There is significant headroom in Baby Bunting's debt facility to support our plans for the year ahead.

Finally, I would like to express my gratitude to our team members and our suppliers. Your support continues to be integral to our success. The year ahead will pose some challenges, but I know the Board and the management team – to be led by Mark Teperson – are focused on building on the Company's strong foundations.

Thank you all for your continued support.

Melanie Wilson

Melanie Wilson
Chair

Store network

We have a network plan for more than 110 stores in Australia

70 stores throughout Australia

Store Support Centre/National Distribution Centre

Dandenong South, Victoria

For New Zealand, we have a network plan for more than 10 stores

Distribution Centre

Wiri, Auckland

Sustainability

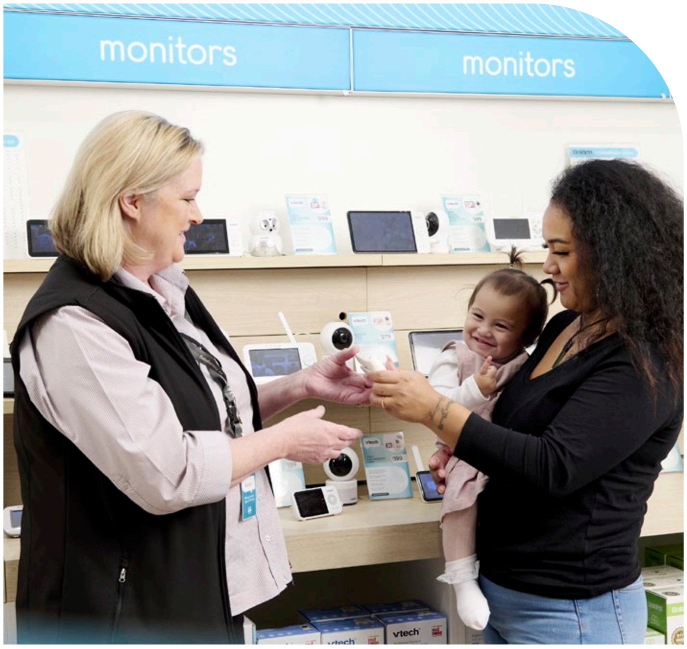
Baby Bunting and sustainability

Our ESG strategy is based around the following three pillars:

- **Our People** – creating an equitable, inclusive and safe workplace where our team members can thrive. With a focus on being a parent friendly organisation.
- **Our Communities** – contribute to support the communities in which we operate and to focus on the needs of parents and families.
- **Our Planet** – operating in a sustainable manner to reduce the environmental impact of our actions.

Some highlights for FY2023 include:

- We **raised and donated over $1.06 million** to support our charity partners and families in need (up from $695,000 in FY2022)
- Our **use of green energy increased to 21%** of our Australian store network (up from around 11% last year)
- In our online fulfilment operations, we have **eliminated bubble wrap and plastic tape** and in our stores we have **phased out plastic bags**
- By not printing paper catalogues, we **saved around 205 million pages of paper**



Our 2023 Sustainability Report describes in detail our goals and progress during FY2023. It is available at investors.babybunting.com.au

The board

Details of the qualifications, experience and special responsibilities of each current director are as follows:

Melanie Wilson Chair, Non-executive Director

MBA, B.Comm (Hons), GAICD

Melanie has over 15 years' retail experience in senior management roles. Her appointments have included Limited Brands, Starwood Hotels (New York), Woolworths and Diva/Lovisa and have covered a wide spectrum of retail including store operations, merchandise systems, online e-commerce, marketing, brand development and logistics/fulfilment.

In her most recent executive position, Melanie was Head of Online at BIG W. Prior to her retail experience, Melanie performed roles at Bain and Company (Boston) and Goldman Sachs (Hong Kong and Sydney).

Melanie holds a Bachelor of Commerce (Hons) and has a Master of Business Administration (Harvard). She is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of JB Hi-Fi Limited (appointed in June 2020) and PropertyGuru Group Ltd (a NYSE listed entity) (appointed November 2019). She was a non-executive director of Shaver Shop Group Limited (June 2016 to May 2020), iSelect Limited (April 2016 to October 2021) and EML Payments Limited (February 2018 to February 2023).

Gary Levin Non-executive Director

B.Comm, LLB, MAICD

Chair of the Audit and Risk Committee

Gary has over 40 years' management, executive and non-executive experience in public and private companies including in the retail, investment and online industries.

As a founder, Gary has built and grown many successful retail businesses, and as a non-executive director he has been closely involved in the transformation and growth of retail and digital businesses. These businesses include Rabbit Photo (former joint managing director), JB Hi-Fi (former non-executive director), Catch Group (former Chair), Cheap as Chips (a discount variety retailer) (current Chair), Mwave Australia (an e-commerce computer retailer) (current Chair) as well as his role at Baby Bunting since 2015.

Donna Player Non-executive Director

BA, GAICD

Member of the Remuneration and Nomination Committee

Donna has over 40 years' experience in retail, marketing and product development gained in both retail and wholesale industries. Currently she is Director of Merchandise for Camilla Australia and has had executive responsibilities for merchandise, planning, branding, sourcing and supplier strategies in previous roles.

Donna holds a Bachelor of Arts from the University of NSW and is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of Accent Group Limited (appointed in November 2017) and the Children's Tumour Foundation.

Gary Kent Non-executive Director

BEc, GAICD

Chair of the Remuneration and Nomination Committee, Member of the Audit and Risk Committee

Gary has an extensive background in the retail and services sector, with considerable experience in corporate finance transactions. He had a career of 18 years with Coles Myer and the Coles Group, during which time his roles included Chief Financial Officer of the Coles Group and Group General Manager for Finance at Kmart and Myer. Gary has served as the Chief Executive Officer of the Western Bulldogs AFL club, where he has also served as a non-executive director and as chair of the club's audit and risk committee.

He is a non-executive director of Blooms The Chemist Management Services Limited.

Gary holds an economics degree, is a chartered accountant and a graduate of the Harvard advanced management program.

Francine Ereira Non-executive Director

B.Bus, GAICD

Member of the Remuneration and Nomination Committee

Francine brings over 20 years' experience in areas including e-commerce, digital, payments/fintech, sales, supply chain and marketing.

Francine was previously CEO at Klarna, Australia. Prior to her role at Klarna, she was General Manager Sales & Solution Delivery at Zip Co Limited, a leading Australian payments solutions provider.

Her roles have also included senior executive roles in e-commerce logistics and fulfilment, and sales and marketing roles at national and international consumer brand companies.

Francine holds a Bachelor of Business from Monash University and is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of Brainwave Australia and an advisory Board member of Greener and InDebted.

Stephen Roche Non-executive Director

B.Bus, FAICD

Member of the Audit and Risk Committee

Stephen has over 15 years' experience as a director of public companies, private family offices and not for profit enterprises. Most recently he was Managing Director of Bridgestone Australia & New Zealand. He has also been Managing Director and CEO of Australian Pharmaceutical Industries Limited from August 2006 to February 2017.

He brings extensive experience in strategy, business development and supply chains across retail, healthcare and consumer markets.

Stephen is currently a non-executive director of GWA Group Limited (appointed in November 2022), Myer Family Investments Pty Ltd and a director of the Adelaide Football Club. He was previously a non-executive director of Blackmores Limited (September 2021 to August 2023).

He holds a Bachelor of Business from the University of South Australia and is a fellow of the Australian Institute of Company Directors.

Corporate governance statement

This Corporate Governance Statement describes the corporate governance practices of Baby Bunting Group Limited (Baby Bunting or the Company) for the financial year ended 2 July 2023 and it is current as at that date. This Statement has been approved by the Board.

This Statement reports the Company's compliance with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (4th edition) (ASX Principles and Recommendations).

Copies of a number of the charters and policies referred to in this Statement are available under the "Governance" section of the Company's corporate website investors.babybunting.com.au.

Developments during FY2023

During the 2023 financial year, after more than 11 years in the role, Matt Spencer, Chief Executive Officer resigned. Matt's last day in that role was 2 June 2023.

The Board conducted a search for a replacement with the assistance of the executive recruitment firm, Derwent. This process was primarily led by Melanie Wilson, Chair and Gary Kent, Chair of the Remuneration and Nomination Committee. Several candidates were considered as part of the process which involved several meetings with the Chair and the Chair of the Remuneration and Nomination Committee along with meetings with each of the other Non-executive Directors. Reference and other background checks were undertaken in relation to the shortlisted candidates.

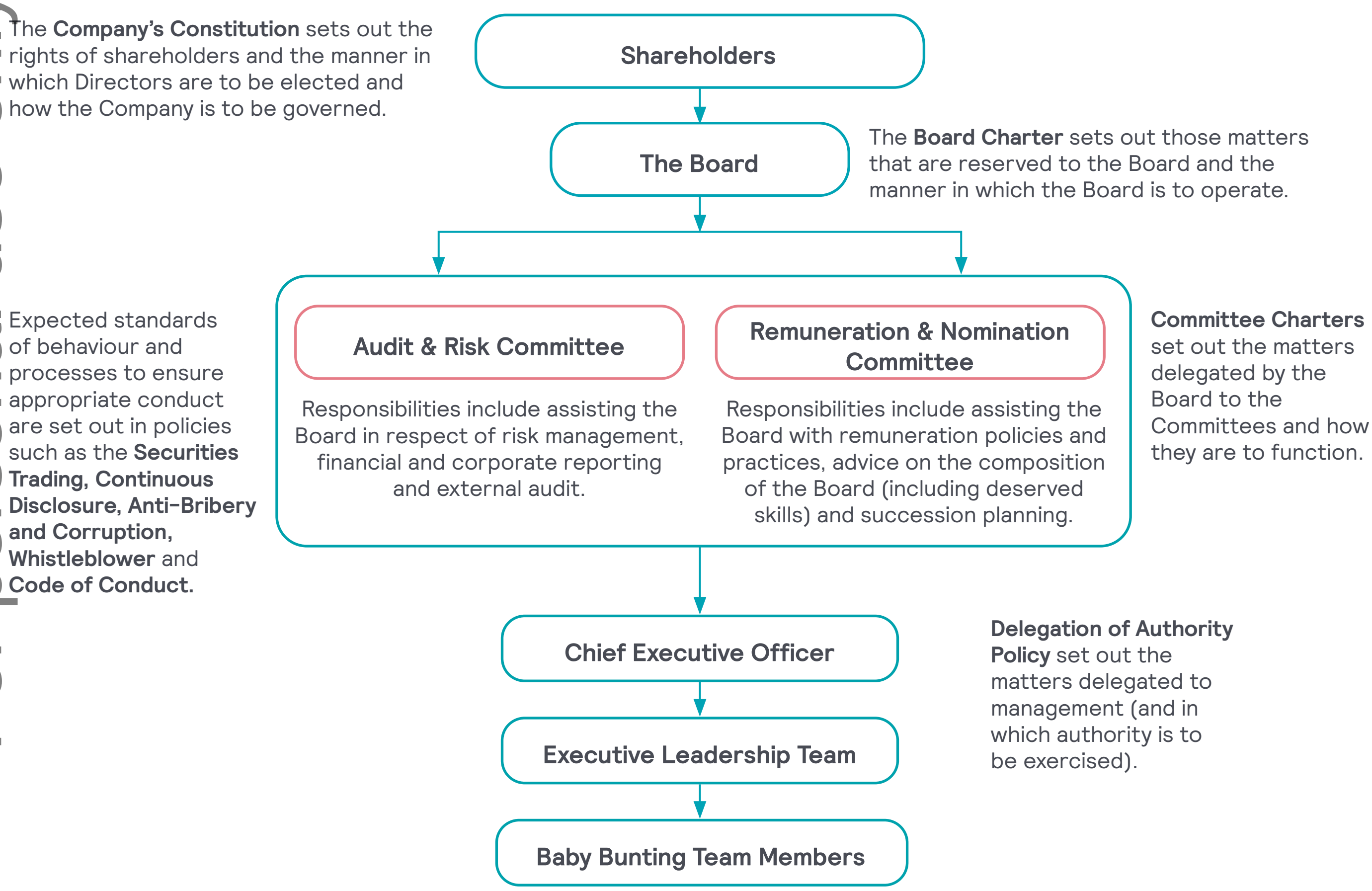
The process culminated with the Board appointing Mark Teperson as Chief Executive Officer. This was announced on 23 May 2023 and Mark will commence his role on 2 October 2023.

Darin Hoekman, the Company's Chief Financial Officer was appointed as Acting Chief Executive Officer with effect from 2 June 2023. He will return to his role as Chief Financial Officer upon Mark Teperson commencing on 2 October 2023.

During the year, the Board adopted a minimum shareholding policy for directors and key management personnel. A person subject to the policy is required to achieve and maintain a minimum shareholding in the Company's shares equivalent to 100% of their fixed annual remuneration. Participants must accumulate the shareholding by the later of 5 years after the adoption of the policy or their date of appointment.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Baby Bunting's corporate governance framework can be illustrated in the chart below. Further details of the governance elements included in the chart are described further in this Statement.



Responsibilities of the Board and management

The Board has adopted a written charter to provide a framework for the effective operation of the Board, which sets out:

- the Board's composition, its role and responsibilities, including that the Board is responsible for approving and monitoring the Company's strategy, business performance objectives, financial performance objectives, and overseeing and monitoring the establishment of systems of risk management and internal controls;
- the roles and responsibilities of the Chair and the Company Secretary;
- the division of authority between the Board, the Chief Executive Officer and management;
- the ability of Directors to seek independent advice; and
- the process for periodic performance evaluations of the Board, each Director and the Board committees.

Delegation of Authority Policy

The Company's Delegation of Authority Policy sets out in detail the authority that has been delegated to the Chief Executive Officer, other executives and Team Members.

While the Board is responsible for approving the annual budget prepared by management, executives are delegated responsibility for the budgets that apply to their functions and departments. The Delegation of Authority Policy also specifies the processes for review and approval of contracts and other commitments.

Director and senior executive appointments – conducting appropriate checks

Potential new directors are subject to appropriate screening and background checks, including police checks, prior to appointment as a director by the Board. In addition, the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

When appointing senior executives, screening, background checks and police checks are undertaken.

Reference, background and police checks were conducted before the Company entered into an employment agreement with Mark Teperson, who will commence as Chief Executive Officer in October 2023.

Written appointments

The Company has entered into written agreements with each of its Directors and senior executives setting out the terms of their appointment. The material terms of all employment, service or consultancy agreements with Directors or other related parties have been disclosed, to the extent required, in accordance with ASX Listing Rule 3.16.4. The material terms of the employment agreement for Mark Teperson were disclosed to ASX on 23 May 2023.

The Company's Remuneration Report contains additional details on the remuneration of each Non-executive Director and summaries of the employment contracts of each other member of the Company's key management personnel.

Role of the Company Secretary

Corey Lewis is the Group Legal Counsel and Company Secretary. As part of his role as company secretary, he is responsible for day to day operations of company secretarial matters, including the administration of Board and committee meetings, overseeing the Company's relationship with its share registrar and lodgments with the ASX and other regulators. The company secretary is accountable to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Darin Hoekman, the Chief Financial Officer, is also a company secretary of the Company. He has responsibility for the above matters in the absence of the Group Legal Counsel and Company Secretary.

Diversity

The Board has adopted a Diversity Policy which sets out Baby Bunting's commitment to recognising the importance of diversity for its business.

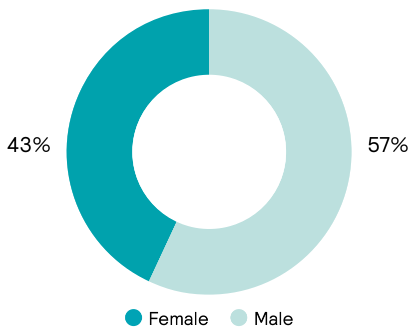
Baby Bunting actively promotes diversity through its hiring and promotion practices, measures gender diversity in the composition of its senior executives and team members generally, and reports these annually to the Australian Government's Workplace Gender Equality Agency.

As at 2 July 2023, the proportion of women employed by Baby Bunting is as set out below. While Matt Spencer ceased in his role on 2 June 2023 and Mark Teperson does not commence in his role until 2 October 2023, the figures for Directors and Senior Executives are presented as if Mark was in his role as at 2 July 2023.

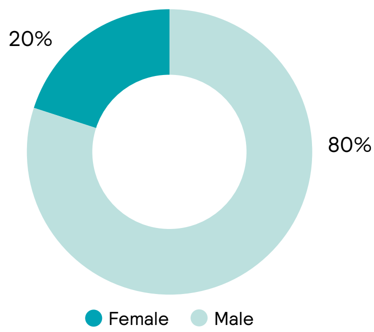
Corporate governance statement continued

As at 2 July 2023, the proportion of women employed by Baby Bunting was:

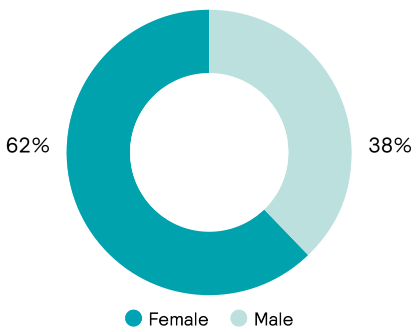
Directors



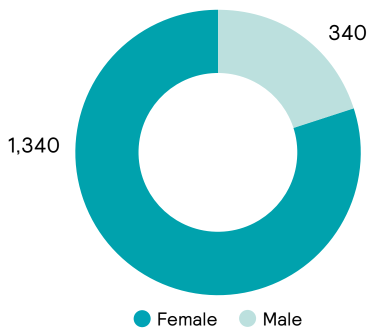
Senior Executives



Regional & Area Managers



All Team Members



Note: Senior Executives defined as the Chief Executive Officer and those executives who report to the Chief Executive Officer, plus the GM Merchandise, GM Store Operations, GM Supply Chain, GM Online and Digital and GM IT and Transformation Program.

The Board has set the following gender diversity objectives:

Reference group	Gender diversity objective	FY23 outcome
Board of directors	That the Board comprise an equal number of women and men as Non-executive Directors and that the Board (including any executive directors) comprise at least 40% of each gender.	Objective met Throughout the year, the mix of Non-executive Directors was three women and three men.
Senior Executives	That at least a third of the Company's Senior Executives are women in the medium term.	Objective not met Currently, 20% of Senior Executives are women. Executive succession planning has regard to, among other things, achieving this objective in the medium term.
Area and Regional Managers	That at least 40% of the Company's Area Managers and Regional Managers be women.	Objective met 58% of Regional and Area Managers are women.

The table below shows the level of gender diversity in the Company and the changes from the prior year:

	Number of females in category at 2 July 2023	Total number in category at 2 July 2023	% of females	Number of females in category at 26 June 2022	Total number in category at 26 June 2022	% of females
Board of directors[1]	**3**	**7**	**43%**	3	7	43%
Senior Executives (incl. CEO)	**2**	**10**	**20%**	3	12	25%
Area, Regional and Store Managers	**66**	**83**	**80%**	58	79	73%
All Team Members	**1,340**	**1,680**	**80%**	1,209	1,536	79%

1. Matt Spencer ceased as an executive director on 2 June 2023. Mark Teperson will commence as an executive director on 2 October 2023. For the purpose of the table, the Board of directors is assumed to comprise the 6 current Non-executive Directors plus one executive director.

In June 2023, the Company lodged its Workforce Profile report with the Workplace Gender Equality Agency (WGEA).

Board performance evaluation

The Remuneration and Nomination Committee Charter provides that the Remuneration and Nomination Committee will assist the Board to assess Board performance, and the performance of Board Committees and individual Directors.

In September 2022, the Board assessed its own performance, and considered the performance of the Board Committees and individual Directors.

The performance reviews were undertaken by way of questionnaires as well as discussions on how the Board and each Committee's processes could be improved or modified. The Board also sought the views of executives by way of an anonymous survey to seek additional perspectives on the Board and Committee processes and interactions between the Board and management.

Senior executive performance evaluation

The Remuneration and Nomination Committee Charter provides that the Committee will oversee the processes for the performance evaluation of the executives reporting to the Chief Executive Officer and review the results of that performance evaluation process.

The Board is responsible for reviewing the performance of the Chief Executive Officer.

In relation to the performance of senior executives, the Remuneration and Nomination Committee received reports of the outcome of the executive performance evaluation processes.

These were subsequently considered by the Board. The executive evaluation processes involved, among other things, assessing the performance of executives against their specific performance objectives as well as the Company's overall performance on a range of measures (including financial and specific key performance indicators).

For the performance assessment of the Chief Executive Officer, the Board considers the Chief Executive Officer's performance for the year having regard to, among other things, his specific performance objectives and the Company's performance. The Chair is responsible for engaging with the Chief Executive Officer in relation to the Board's assessment of his performance.

PRINCIPLE 2: STRUCTURE THE BOARD TO BE EFFECTIVE AND ADD VALUE

Nomination – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee. Its role is to review and make recommendations to the Board on remuneration policies and practices related to the Directors and senior management and to ensure that the remuneration policies and practices are consistent with the strategic goals of the Board.

The Committee comprises the following Non-executive Directors:

Position	Director
Chair	Gary Kent
Members	Donna Player Francine Ereira

Details of the qualifications and experience of Committee members are set out on pages 12 and 13. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 43 of the Directors' Report. Directors who are not members of the Committee may attend any meeting.

The Remuneration and Nomination Committee Charter sets out:

- the composition of the Committee, including that the Committee must comprise only Non-executive Directors, a majority of whom are independent and that the Chair of the Committee is not to be the Chair of the Board;
- the Committee's ability to have access to Company records and employees and the external auditor for the purpose of carrying out its responsibilities. The Charter also provides that the Committee may seek the advice of independent advisors on any matter relating to the duties or responsibilities of the Committee; and
- the specific responsibilities of the Committee in respect of the areas of nomination (including in respect of matters going to the composition of the Board, the Board's skills matrix and succession planning for the Board) and remuneration (including responsibilities to review and make recommendations to the Board on executive and Non-executive Director remuneration, reviewing the Company's remuneration policies, overseeing employee equity incentive plans and responsibility for reviewing the Company's remuneration report).

Board skills matrix

The Board, having regard to the current size of the Company and its current strategies, has adopted a skills matrix setting out the mix of skills and diversity that the Board is looking to achieve in its membership at this time. The Board also has regard to the attributes and personal qualities of Directors, including the ability of individual Directors to contribute effectively to the functioning of the Board and a commitment to the Company's values and its Code of Conduct.

For persons being considered for appointment to the Board, the Board will seek to identify whether the person has a demonstrated or assessed ability to work in a collegiate environment along with the ability, where necessary, to express a dissenting view objectively and constructively. The Board considers that each Non-executive Director possesses these attributes.

Given the Company's size, the Board considers that the Board should be comprised of five to seven Non-executive Directors.

Board skills matrix

	Skill or experience	Description
Technical skills	Executive leadership	Demonstrated success at CEO or senior executive level in a major business
	Commercial and financial acumen	Demonstrated success in sustainably managing the financial performance of a large retail business or commercial undertaking
	People and organisational culture	Experience with managing people and teams, including the ability to appoint and evaluate senior executives, manage talent development and oversee organisational change
	Information Technology	Knowledge and experience in the use and governance of information technology and applications in a retail environment
	Risk management and compliance	Experience in risk management and compliance frameworks and related policies and processes, setting risk appetites, identifying and providing oversight of material business risks
Experience	Retail	Experience at a customer/retail business obtained through an executive or leadership position
	Supply chain	Knowledge and experience in retail logistics and distribution
	Consumer advocacy	Recent consumer experience in the retail baby goods sector (eg, as a parent or grandparent to small children) with an ability to bring the perspectives of parents or grandparents to deliberations (being among some of the Company's most important stakeholders)
	Digital and technology	Current experience with digital and online retailing, including a familiarity with changes in technology, applications and changing consumer habits
	ASX board experience and investor advocacy	Experience as a non-executive director of an ASX listed company, including an ability to articulate the expected views of all categories of investors
	International experience	Experience in international markets, exposed to a range of political, cultural, regulatory and business environments
	ESG and corporate social responsibility	Experience in formulating, implementing and/or overseeing corporate governance and strategies focused on conducting business responsibly and ethically, enhancing corporate culture and generating long-term sustainable value for shareholders, employees, stakeholders and the community

The Board intends to review the skills matrix annually to ensure that it remains appropriate for the Company, its circumstances and its strategies.

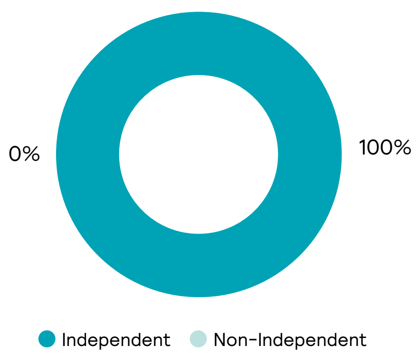
Independent Directors

At the date of this Statement, the Board comprises six directors. A majority of the Board are independent Non-executive Directors.

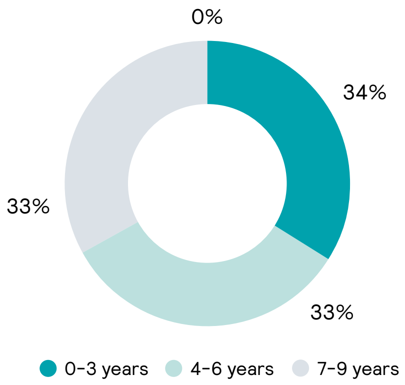
Matt Spencer, Chief Executive Officer, resigned as a director on 2 June 2023.

Name	Position	Appointed	Approximate length of service
Independent Directors			
Melanie Wilson	Chair, Independent Non-executive Director	15 February 2016	7 years 6 months
Gary Levin	Independent Non-executive Director	25 August 2014	9 years
Donna Player	Independent Non-executive Director	16 January 2017	6 years 7 months
Gary Kent	Independent Non-executive Director	12 December 2018	4 years 8 months
Francine Ereira	Independent Non-executive Director	1 September 2021	1 year 11 months
Stephen Roche	Independent Non-executive Director	1 September 2021	1 year 11 months

Director Independence



Director Tenure Diversity



The Board considers an independent Director to be a Non-executive Director who is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company. The materiality of the interest, position, association or relationship will be assessed to determine whether it might interfere, or might reasonably be seen to interfere, with the Director's characterisation as an independent Director.

The Board has assessed each Non-executive Director to be independent. In assessing independence, the Board has had regard to the factors set out in the ASX Principles and Recommendations.

For FY2024, each Director has confirmed that they anticipate being available to perform their duties as a Non-executive Director or executive Director without constraint from other commitments.

Director induction and training

The Board Charter contemplates that new Directors will be provided with an induction program to assist them in becoming familiar with the Company, its managers and its business following their appointment. The induction program involves, among other things, meetings with members of the Board and executive briefings on the Company's operations and relevant business matters.

Directors may, with the approval of the Chair, undertake appropriate professional development opportunities (at the expense of the Company) to maintain their skills and knowledge needed to perform their role.

The Board and executives have adopted processes to ensure that the Board is briefed on developments relevant to the Company and the markets in which it operates.

PRINCIPLE 3: INSTILL A CULTURE OF ACTING LAWFULLY, ETHICALLY AND RESPONSIBLY

Baby Bunting's values

Baby Bunting's vision is to be the most loved baby retailer for every family, everywhere. The Company sees its core purpose as supporting new and expectant parents in the early years of parenthood. The Board has endorsed the following set of values developed for Baby Bunting:

Our Vision

To be the most loved baby retailer for every family, everywhere.

Our Core Purpose

To support new and expectant parents in the early years of parenthood.

Our Values

Being passionate
Be passionate about providing our customers with great products and services, advice and value every day

Being considerate
Be considerate and respectful of others and think about how our decisions and actions impact others

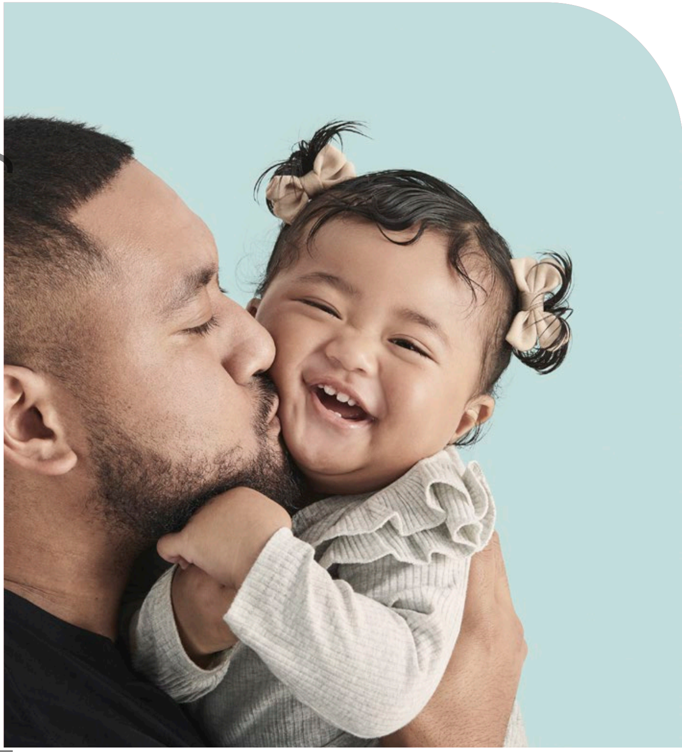
Being honest
Act with integrity and use good judgement

Being positive
Be positive and enjoy doing the things that contribute to a great team spirit

Being focused
Think big, but get on with doing the small things that make a big difference

Being bold
Never be afraid to evolve – encourage a culture of adventure and creativity

Corporate governance statement continued



Code of Conduct

The Board has approved the adoption by the Company of a formal Code of Conduct which outlines how Baby Bunting expects its employees to behave and conduct business in the workplace. The Code of Conduct applies to all employees, regardless of employment status or work location. In addition, the Directors, in the Board Charter, have committed to abiding by the Code of Conduct as it applies to the Board.

The Code of Conduct is designed to:

- provide a benchmark for ethical and professional behaviour throughout Baby Bunting;
- promote a healthy, respectful and positive workplace and environment for all Team Members;
- ensure that there is compliance with laws, regulations, policies and procedures relevant to Baby Bunting's operations, including workplace health and safety, privacy, fair trading and conflicts of interest;
- ensure that there is an appropriate mechanism for Team Members to report conduct which breaches the Code of Conduct; and
- ensure that Team Members are aware of the consequences they face if they breach the Code of Conduct.

The Code of Conduct is available on Baby Bunting's corporate website (investors.babybunting.com.au).

Whistleblower Protection Policy

The Company has adopted a Whistleblower Protection Policy. A copy of the policy is available on Baby Bunting's corporate website (investors.babybunting.com.au).

The Group Legal Counsel has been appointed the Whistleblower Investigations Officer and the General Manager People & Culture has been appointed the Whistleblower Protection Officer, for the purposes of the Policy. When they arise, the Board is informed of all whistleblower reports in a manner consistent with the confidentiality and security requirements of the Policy. No such matters were reported in the 2023 financial year.

Anti-Bribery and Corruption Policy

The Company has adopted an Anti-Bribery and Corruption Policy. A copy of the policy is available on Baby Bunting's corporate website (investors.babybunting.com.au).

To support the Policy, the Company has adopted Acceptable Monetary Limits and Reporting Requirements which set out when an instance of a gift, entertainment or hospitality may be offered or accepted by Baby Bunting Team Members. Generally, they must relate to general relationship building activities where it cannot reasonably be construed as an attempt to improperly influence the performance of the role or function of the recipient.

Team Members must report instances of gifts, entertainment or hospitality other than where the value is immaterial. Where the estimated value exceeds specified limits, prior approval must be sought and obtained.

The Board must be informed of material breaches of the Anti-Bribery and Corruption Policy. No such incidents or breaches were reported in the financial year.

PRINCIPLE 4: SAFEGUARD THE INTEGRITY OF CORPORATE REPORTING

Audit and Risk Committee

The Board has established the Audit and Risk Committee. Its role is to assist the Board in fulfilling its responsibilities for corporate governance and oversight of the Company's financial and corporate reporting, risk management and compliance structures and external audit functions.

The Committee comprises the following Non-executive Directors:

Position	Director
Chair	Gary Levin
Members	Gary Kent Stephen Roche

Details of the qualifications and experience of Committee members are set out on pages 12 and 13.

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 43 of the Directors' Report. Directors who are not members of the Committee may attend Committee meetings.

The Audit and Risk Committee Charter sets out:

- the composition of the Committee, including that the Committee must comprise only Non-executive Directors, a majority of whom are independent and that the Chair of the Committee is not to be the Chair of the Board;
- the Committee's ability to have access to Company records and employees and the external auditor for the purpose of carrying out its responsibilities. The Charter also provides that the Committee may seek the advice of independent advisors on any matter relating to the duties or responsibilities of the Committee; and
- the specific responsibilities of the Committee in respect of the areas of risk management and compliance, financial and corporate reporting and external audit matters. With respect to external audit matters, the Committee has responsibility for developing and overseeing implementation of the Company's policy on the engagement of the external auditor to supply non-audit services (noting that the Committee is required to advise the Board as to whether it is satisfied that the provision of any non-audit services is compatible with the general standard of independence for auditors).

CEO and CFO Declarations

The Board, before it approved the Company's financial statements for the half year ended 26 December 2022, received from the Chief Executive Officer and the Chief Financial Officer a declaration. In relation to the Company's financial statements for the year ended 2 July 2023, the Board received a declaration from the Acting Chief Executive Officer being a person temporarily performing a chief executive function and a chief financial officer function.

The declaration was, in the opinion of the person giving the declaration, that the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects.

Corporate governance statement continued

Corporate reporting

In addition to the CEO and CFO Declarations (described above), the Company has processes that seek to ensure that its annual reports, half yearly reports and other reports prepared for the benefit of investors are not misleading or deceptive and do not omit material information. These processes include:

- a process of confirming pro forma non-statutory numbers against appropriate supporting files, along with review and verification by the appropriate individuals;
- verifying key statements against appropriate source material; and
- allocating relevant parts of the report or document for review and sign-off to an appropriate approver.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has adopted a Continuous Disclosure Policy. The Continuous Disclosure Policy establishes procedures to ensure the Company complies with its continuous disclosure obligations under the Corporations Act 2001 (Cth) and the ASX Listing Rules.

The Board receives copies of all material market announcements promptly after they have been lodged with ASX. In addition, a copy of any new and substantive investor or analyst presentation is released to ASX in advance of the presentation.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

The Company's website

The Company's corporate website (investors.babybunting.com.au) has information about the Company and its governance.

Investor relations programme

The Board's aim is to ensure that shareholders are provided with sufficient information to assess the performance of the Company and that they are informed of all major developments affecting the affairs of the Company.

The Company is required by law to communicate to shareholders through the lodgement of all relevant financial and other information with ASX and, in some instances, mailing information to shareholders. Information (including information released to ASX) is published on the Company's investor website. The Company's investor website also contains information about it, including key policies and the charters of the Board and Board Committees.

In addition, from time to time, the Company conducts ad-hoc briefings with institutional investors, as well as financial media. In some instances, that can involve site visits to stores or the Company's Distribution Centre. It is the Company's policy not to hold briefings with investors or analysts from 1 June until the release of the full year results in August and from 1 December until the release of the half year results in February.

Shareholder participation at meetings

The Company's annual general meeting for the financial year ended 2 July 2023 will be held on 10 October 2023.

In previous years, the annual general meeting has been held in either Melbourne or Sydney.

Shareholders are provided with notice of the meeting (either electronically or by hard copy) in advance of the scheduled meeting time. Shareholders have an opportunity to ask questions at the meeting. In addition, shareholders can submit questions electronically in advance of a meeting via the share registrar's website.

It is the Company's practice that all voting on substantive resolutions at shareholder meetings is conducted by way of a poll.

Electronic shareholder communications

The Company encourages shareholders to receive communications from it and its share registrar electronically and provides details for shareholders to send electronic communications and to have them actioned appropriately.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk – Audit and Risk Committee

The role of the Audit and Risk Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Company's financial reporting, internal control structure, risk management systems and internal and external audit functions.

This includes considering the quality and reliability of the financial information prepared by the Company, working with the external auditor on behalf of the Board and reviewing non-audit services provided by the external auditor to confirm they are consistent with maintaining external audit independence.

The Audit and Risk Committee provides advice to the Board and reports on the status and management of the risks to the Company.

The purpose of the Committee's risk management process is to assist the Board in relation to risk management policies, procedures and systems and ensure that risks are identified, assessed and appropriately managed.

Details of the Committee are contained on page 25 above (see "Audit and Risk Committee") and details of the meetings of the Committee and the attendance of members are set out on page 43 of the Directors' Report.

Risk management framework

The Board is responsible for overseeing the establishment of and approving risk management strategies, policies, procedures and systems of the Company, and is supported in this area by the Audit and Risk Committee. The Company's management is responsible for establishing the Company's risk management framework.

The objectives of the risk management framework include:

- identifying the key risks associated with Baby Bunting's business;
- raising the profile of risk within Baby Bunting and helping to embed a risk-aware culture within Baby Bunting;
- assisting management and the Board to ensure that the Company has a sound risk management framework;

- supporting the declarations by the Chief Executive Officer and the Chief Financial Officer that their opinions on the Company's financial statements are based on a "sound system of risk management and internal control which is operating effectively"; and
- where appropriate, having controls, policies and procedures to manage certain specific business risks – e.g an insurance program, regular financial budgeting and reporting, business plans, strategic plans, etc – so as to mitigate the likelihood, or consequence, of certain specific business risks.

As part of the risk management framework, processes exist to identify, assess, monitor and review the Company's key risks and to document and monitor the Company's other risks. In connection with its responsibilities for risk management, the Audit and Risk Committee receives reports from management on the risk management system, key risks and the related risk treatment plans as well as information on critical events that may arise throughout the year.

Risk appetite statement

The Board has adopted a Risk Appetite Statement. The statement provides guidance as to the type and degree of risk that the Board is willing to accept in pursuing the Company's strategy and conducting its business. Risk appetite is the amount of risk that Baby Bunting is willing to accept or retain to pursue its strategy and conduct its business. It seeks to balance the benefits of an activity or new opportunity with the risk that the activity or opportunity might bring.

The Risk Appetite Statement identifies a number of risk types (eg operational risk, people and culture risk, financial risk, legal and compliance risk, strategic risk) and states a risk appetite rating or tolerance for each. Risk appetite ratings range from zero appetite through to high appetite. Instances where a risk tolerance has exceeded the specific rating or tolerance must be reported to the Audit and Risk Committee or Board, along with details of any proposed corrective actions.

The statement forms parts of the Company's risk management framework.

Internal audit function

The Company does not have a formalised internal audit function, but has processes for evaluating and continually improving the effectiveness of risk management and internal financial control processes.

To evaluate and continually improve the effectiveness of the Company's risk management and internal control processes, the Board relies on ongoing reporting and discussion of the management of material business risks. These processes are implemented, overseen and assessed by the management team, the Chief Financial Officer and Chief Executive Officer, and the Audit and Risk Committee.

Environmental and social sustainability risks

The Company is exposed to a number of risks, details of which are included in the Directors' Report on pages 39 to 42. These risks could have a material impact on the Company, its strategies and future financial performance. These risks were identified as part of the Company's risk management framework (described above). Management is responsible for developing strategies to manage identified risks.

As a retailer, the Company is exposed to environmental and social risks, including risks relating to supply chains, sustainable packaging and sustainable product development and sustainable operating practices.

Further details about Baby Bunting's approach to environmental and social sustainability matters are contained in its Sustainability Report (released in August 2023).

The Company has also published its second Modern Slavery Statement (released in August 2023). The statement describes the modern slavery risks that exist in the Company's supply chains. A copy of the statement is available on the Company's website (investors.babybunting.com.au).

PRINCIPLE 8: REMUNERATION FAIRLY AND RESPONSIBLY

Remuneration – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee with specific responsibility for remuneration matters.

Details of the Committee are contained on page 20 above (see "Nomination – Remuneration and Nomination Committee") and details of the meetings of the Committee and attendances by members during the reporting period are set out on page 43 of the Directors' Report. Directors who are not members of the Committee may attend Committee meetings.

Remuneration for Non-executive Directors and Executives

The Company's Remuneration Report, included as part of its Directors' Report, describes the Company's remuneration policies and practices as well as providing details for each Director and those executives considered to be members of the Company's key management personnel.

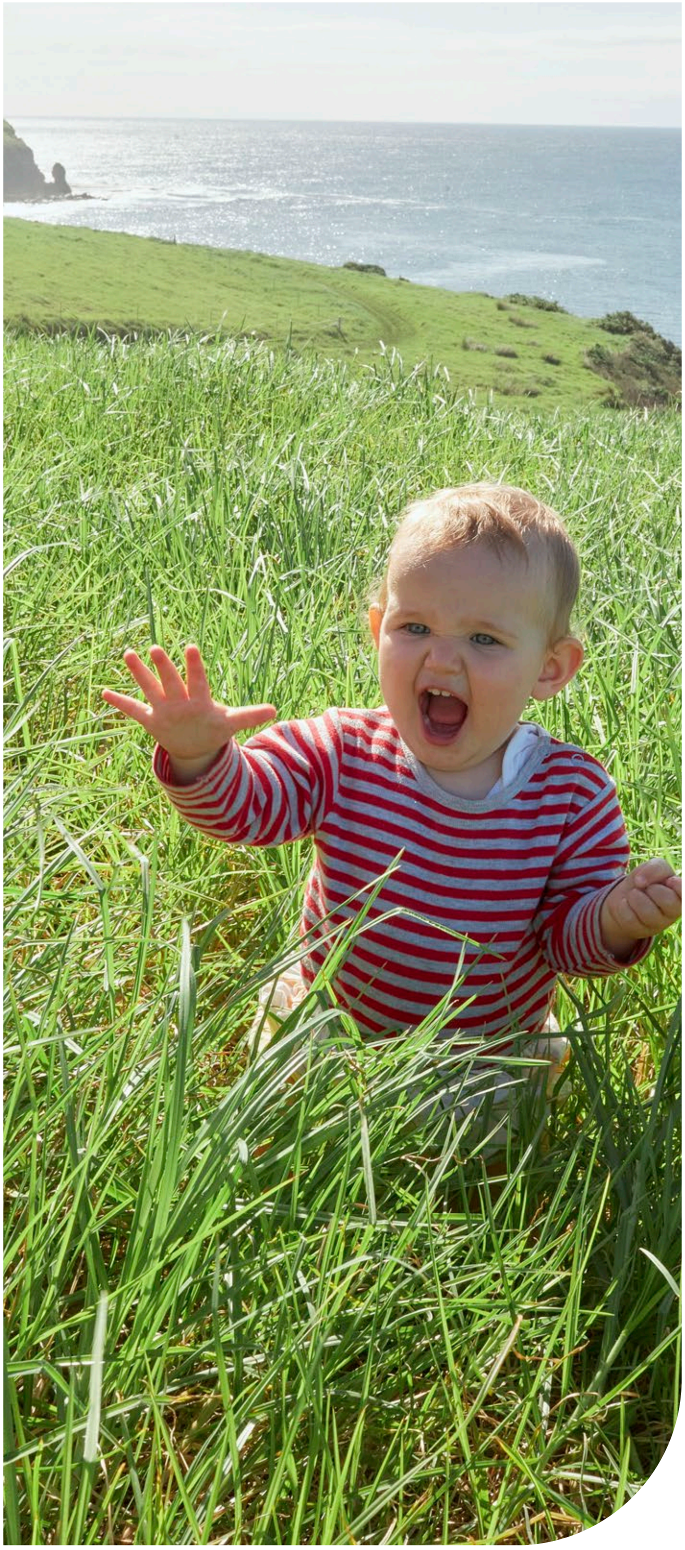
Non-executive Directors are not entitled to participate in the Company's short term or long term incentive plans.

Minimum Shareholding Policy

The Board has adopted a minimum shareholding policy for directors and key management personnel. A person subject to the policy is required to achieve and maintain a minimum shareholding in the Company's shares equivalent to 100% of their fixed annual remuneration. Participants must accumulate the shareholding by the later of 5 years after the adoption of the policy or their date of appointment.

Securities Trading Policy and hedging

The Company's Securities Trading Policy provides that persons subject to that policy (including Directors and executives) must not engage in transactions designed to hedge their exposure to the Company's shares. In addition, designated persons must only trade during designated trading windows and must seek approval under the Policy before doing so.



Directors' report

The Directors of Baby Bunting Group Limited (the Group or Baby Bunting) submit the financial report of the Group and its controlled entities ("the consolidated entity") for the financial year ended 2 July 2023.

1. Principal activities

During the financial period, the principal activity of the Group and its consolidated entities was the operation of Baby Bunting retail stores and its online store babybunting.com.au.

Baby Bunting is Australia's largest specialty retailer of maternity and baby goods, primarily catering to parents with children from newborn to three years of age and parents-to-be. Baby Bunting's core purpose is to support new and expectant parents in the early years of parenthood.

Baby Bunting also has operations in New Zealand, with a store in Auckland and an online store, babybunting.co.nz.

The Group's principal product categories include prams, cots and nursery furniture, car safety, toys, babywear, feeding, nappies, manchester and associated accessories. Baby Bunting also provides services that are complementary to the products it sells, including car seat installation and hire services of certain nursery products.

2. Operating financial review

2.1. The Group's business model

The Group's business model centres around the sale of baby goods through its store network and digital channel, as well as product services offered to parents and parents-to-be.

Products sold by Baby Bunting include third-party produced and branded baby goods (many of which are sold exclusively by Baby Bunting) and private label products.

Baby Bunting's private label products include products sold under the 4baby, Bilbi and JENGO brands. Exclusive products are products sourced by the Group for sale on an exclusive basis (so that those products can only be purchased from Baby Bunting). Historically, exclusive supply arrangements have been arranged with suppliers in relation to selected products and for varying lengths of time.

Baby product services are also part of Baby Bunting's business model. The Group offers car seat installation services at its stores throughout Australia and New Zealand.

The Group commenced sales of products online to New Zealand customers in July 2020 and opened its first store in New Zealand in August 2022. In the coming financial year, the Group expects to open three additional stores in New Zealand.

Baby Bunting's business model leverages several core competitive advantages, as summarised in the table below.

Drivers of competitive advantage	Comment
Scale	Baby Bunting is the largest specialty retailer in the Australian baby goods market and the only specialty maternity and baby goods retailer with a national presence in Australia. Its industry position and continued growth has enabled the Group to invest in its people, technology, brand, inventory levels, prices and customer experience.
Convenient network of stores and a leading digital channel	The Group currently operates 70 stores across Australia. The Group's website, babybunting.com.au, continues to be Australia's leading specialty baby goods website as measured by number of visits. The Group is focused on delivering customers the best possible retail experience across all channels, in store, online or on mobile. Baby Bunting opened its first store in New Zealand in August 2022, utilising its large format model. Further three stores will open in New Zealand in the coming financial year and the Group has a network plan for at least 10 stores in that market.

Drivers of competitive advantage	Comment
Customer centric team culture	Baby Bunting has a dedicated team of well trained and knowledgeable staff to service customers' individual needs. Baby Bunting collects feedback from customers instore and online. Insights gained from customer feedback and preferences are enabling Baby Bunting to tailor its offering to focus on the steps in the customer journey of first time parents as well as parents with growing families.
Consistent retail store experience	Baby Bunting is focused on providing customers with a consistent retail experience across its network. The Group's stores in major market catchments (with populations greater than 200,000) range in size from approximately 1,500 to 2,000 square metres and are typically located in either bulky goods centres or at stand-alone sites. Baby Bunting has a number of stores located in shopping centres, where the format incorporates the key elements of the standard destination store format. In regional centres (with populations of less than 200,000), the Group typically operates a smaller store format of approximately 1,200 to 1,500 square metres, without compromising product range or customer service. Store formats and layout are largely consistent across the network, with customer-friendly navigation and clear demarcation of categories. Convenient parking is available directly outside our destination stores and all stores have parcel pick-up facilities allowing for easy loading of bulky items into customers' vehicles as well as enabling car seat installation services.
Widest product offering, in-stock and available	Baby Bunting offers what it believes to be the widest range of products, with over 7,800 products available. Through its Australian store network, approximately 22,000 square metre Distribution Centre and through the use of interstate third party warehouses, Baby Bunting aims to have its product range in-stock and available at the time of the customer's purchase. In New Zealand, the Group has established a distribution centre in Auckland to support the store network and online fulfillment to ensure a strong in-stock position for that market.
Competitively priced	Baby Bunting's approach to pricing is centred on offering customers value every day, every visit. Baby Bunting also has a range of every day essentials priced at enter-level pricing. Baby Bunting's "Our Price Promise" means that if a customer finds a lower price at a competitor on an identical in-stock product, Baby Bunting will beat it by 5%.
Comprehensive range of ancillary services	Across its entire store network, Baby Bunting provides additional services to its customers, including click & collect services, layby, consumer payment services, parenting rooms which include baby weigh scales, and an in-store/online gift registry. Car seat installation services are provided at all Baby Bunting stores.
Cost effective marketing	The Group considers that its most successful marketing tool is word of mouth and it considers that it has a high unprompted brand awareness. This is a critical factor in allowing the Group to limit its marketing expenditure to under 2% of sales. Baby Bunting's marketing is further supported by online (email, search and digital), social media including TikTok and more traditional channels (TV and radio).

2.2. Store network

The Group currently operates a network of 70 stores across all Australian states and territories, except Northern Territory. The location and layout of stores is designed to deliver customers a consistent retail experience across the network.

There is currently one store in New Zealand, located in Albany, Auckland with another three stores expected to open during the coming financial year.

2.3. People

At the end of the financial year, the Group employed around 1,680 employees with the majority employed at the Group's stores, and others located at the Group's Store Support Centre and Distribution Centre at Dandenong South (Vic) and the distribution centre and support office in Auckland (NZ).

2.4. Review of the Group's operations

There was a degree of volatility in trading conditions during the financial year, which saw impacts to gross profit margin in the first quarter, as well as difficult retail trading conditions in the second half with consumer sentiment turning negative as the cost of living pressures became more prominent for consumers in the final quarter. This had an impact on the Group's financial performance.

After the end of the financial year, the Group initiated steps to optimise its cost structure by identifying opportunities to restructure some Store Support Centre functions. This has seen a small number of roles being made redundant from the Store Support Centre. The Group has also decided to moderate the level of investment in the final transformation project, relating to its ERP and POS systems replacement. This will assist to manage costs in the short-term, with the investment expected to be undertaken in a future period.

Australian operations

Operational highlights for Baby Bunting in Australia during FY2023 included:

- opening six new stores, being Hornsby (NSW), Burnside (Vic), Hectorville (SA), Chirnside Park (Vic), Loganholme (Qld) and Orange (NSW), bringing the store network to 70 stores in Australia. In addition, the Ringwood (Vic) store was relocated to a new store at Eastland Shopping Centre, both in the same catchment, to better service this large market opportunity in Melbourne;
- continuing the performance of the Group's private label and exclusive products range, with these sales making up 45.1% of total sales for the year (down slightly from 45.3%). With the support of supplier partners, exclusive products make up 36.1% of sales and Baby Bunting's private label range makes up 9.0% of sales;
- deploying a new payroll system during the year and commencing the deployment of a new time and attendance system, with the final roll-out to be completed across Australian stores and the Distribution Centre in the second quarter of FY2024;
- launching Baby Bunting's marketplace initiative in June 2023, where third-party seller SKUs are available on babybunting.com.au. There are now more than 5,000 SKUs available on the marketplace, providing consumers with access to a broader selection of products. The number of curated marketplace SKUs is anticipated to grow significantly over the course of FY2024; and
- continuing the Group's support for community partners through the support for fundraising efforts for Perinatal Anxiety & Depression Australia (PANDA) and Life's Little Treasures Foundation (a foundation that provides support, friendship and information, specifically tailored for families of premature or sick babies). Funds raised and contributed by the Group for these and other causes during the year was around $1,060,000 (up from $695,000 in the prior year).

During the year, work progressed on initiatives to enhance the Group's order management systems. As part of this broader work, an order management software solution was selected by the Group with plans to implement the solution through the year. Work was discontinued during the second half as it became evident that the selected solution did not function as represented. The Group terminated the licence and implementation agreement and proceedings have been commenced against the vendor in the Federal Court of Australia.

New Zealand operations

For New Zealand, operational highlights include opening the Group's first store in Albany, Auckland during August 2022. This store has helped to support an increasing brand awareness in the New Zealand market.

Three further stores are expected to open during FY2024 including the Group's first store in New Zealand's South Island at Christchurch. Two additional stores are also expected to open in the Auckland area in FY2024.

Refer to the Chair's Report on page 6 of this Annual Report for more information on the Group's operations during the 2023 financial year.

2.5. Review of the Group's financial performance

The full year statutory results for the 53-week period ended 2 July 2023 (FY2022: 52-week period ended 26 June 2022) are summarised below:

- total sales up 3.4% to $524.3 million;
- gross profit of $196.2 million up 0.2%;
- statutory net profit after tax (NPAT) of $9.9 million, a decrease of 49.5% on the prior year;
- statutory basic earnings per share (EPS) of 7.4 cents; and
- cash and cash equivalents less borrowings (net debt) of $6.2 million (versus net debt of $0.7 million at the end of FY2022).

In relation to the 2023 and 2022 financial years, the underlying operating results (as measured by pro forma earnings) are more clearly demonstrated with the following exclusions or adjustments:

- employee equity incentive expenses: the primary economic impact is issued capital dilution if and when shares are issued;
- business transformation project expenses: non-recurring project related expenses associated with significant one-off projects primarily focused around transition of business systems to modern platforms; and
- pro forma earnings before interest, tax, depreciation and amortisation exclude the impact of AASB 16 lease accounting.

The Directors consider that these adjustments are appropriate to better represent the underlying financial performance of the business and to facilitate comparisons with prior periods. In addition, FY2023 was a 53-week financial period and week 53 revenue and expenses have been excluded to enable comparison to prior financial periods.

On a pro forma basis, the FY2023 financial results were:

- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) was $31.2 million, down 38.2% on the prior corresponding period;
- total sales up 1.7% to $515.8 million, with comparable store sales being negative 3.6% for the financial year;
- gross profit of $192.9 million down 1.4%, with gross profit margin on 37.4%;
- pro forma NPAT of $14.5 million, down 51.0% on the prior corresponding period; and
- pro forma costs of doing business (CODB) (excluding the impact of AASB 16 lease accounting) were $161.7 million or 31.4% of sales, an increase of 272 basis points on the prior corresponding period (CODB of 28.6% of sales in FY2022).

A reconciliation between statutory and pro forma financial results is below.

Non-IFRS financial measures

The consolidated entity uses certain measures to manage and report on its business that are not recognised under Australian Accounting Standards. These measures are collectively referred to as "non-IFRS financial measures".

Non-IFRS financial measures are intended to supplement the measures calculated in accordance with Australian Accounting Standards and are not a substitute for those measures. Underlying operating and pro forma results and non-IFRS financial measures are intended to provide shareholders additional information to enhance their understanding of the performance of the consolidated entity. Non-IFRS financial measures that are referred to in this report are as follows:

Non-IFRS financial measure	Definition
Cost of doing business (CODB)	Includes store, administrative, marketing and warehousing expenses (excluding the impact of AASB 16 lease accounting).
EBIT	Earnings before interest and tax. EBIT eliminates the impact of the consolidated entity's capital structure and historical tax position when assessing profitability.
Operating EBIT	Excludes the effects of interest revenue, finance costs, income tax and other non-operating costs. The Chief Executive Officer assesses the performance of the two reportable segments, Australia and New Zealand, based on a measure of Operating EBIT.
Pro forma EBITDA	Earnings before interest, tax, depreciation and amortisation expense (excluding the impact of AASB 16 lease accounting) and excludes pro forma adjustments included in the financial results below.

Pro forma financial results

In relation to the 2022 and 2023 financial years, the pro forma financial results have been calculated to exclude the impact of employee equity incentive expenses and business transformation project expenses. This has been done to more clearly represent the consolidated entity's underlying earnings (noting that this financial information has not been audited in accordance with the Australian Auditing Standards).

Year ended 2 July 2023 $'000	Sales	NPAT
Statutory results	**524,281**	**9,854**
Employee equity incentive expenses[1,2]	–	965
Transformation project expenses[3]	–	4,745
Impact of week 53[4]	(8,491)	(412)
Tax impact from pro forma adjustments[5]	–	(649)
Pro forma results	**515,790**	**14,503**

1. Expense reflects the cost amortisation of performance rights (LTI) on issue in the reporting period. This also includes a write-back of the 2020 (EPS CAGR) expenses ($1.673 million) and the 2021 (EPS CAGR) expenses ($0.275 million) and the payroll tax paid on the plans as the CAGR hurdles as defined under the LTI plan, are unlikely to be achieved.
2. The Company issued 277,182 shares under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.782 million).
3. The Company continued its investment in transformation projects and during the period the Company incurred ($4.745 million) non-capital costs associated with the implementation of a time and attendance system and the initial planning phase of a replacement of its enterprise resource planning (ERP) and point-of-sale systems. Other transformation project expenses include external consultant costs associated with project management costs to deliver the transformation projects.
4. FY2023 was a 53-week retail financial year. Week 53 revenues and expenses have been excluded to enable comparison to the FY2022 full year financial period (52 weeks) and prior years.
5. Tax impact from pro forma adjustments includes income tax expense relating to performance rights vesting under the Company's Long Term Incentive Plan ($0.864 million).

The following table reconciles the statutory to pro forma financial results for the year ended 26 June 2022 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 26 June 2022 $'000	Sales	NPAT
Statutory results	**507,274**	**19,521**
Employee equity incentive expenses[1,2]	–	9,330
Transformation project expenses[3,4]	–	4,668
Tax impact from pro forma adjustments[5]	–	(3,946)
Pro forma results	**507,274**	**29,573**

1. Expense includes $8.570 million for the amortisation of performance rights (LTI) on issue in the reporting period and the associated payroll tax costs of the plans.
2. The Group issued 135,051 shares under its General Employee Share Plan in the reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.760 million).
3. The Group is undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the year, the Group incurred ($3.242 million) non-capital costs associated with the implementation of an order fulfilment system, loyalty system, people systems, and digital technology assets.
4. Other transformation project expenses ($1.426 million) include external consultant costs associated with project management to deliver the transformation projects described in Note 3 above. The non-capital cost of external consultants are associated with running the selection and planning for the integration of the new systems are not related to day-to-day operations or financial performance of the business. These project costs cease at project completion.
5. Tax impact from pro forma adjustments includes income tax benefit relating to performance rights vesting under the Group's Long Term Incentive Plan ($2.317 million).

Revenue

The sales for the year ended 2 July 2023 of $524.3 million represented an increase of 3.4% on FY2022. On a 52-week basis, total sales were $515.8 million, up 1.7% on the prior 52-week period. This sales growth was achieved through

- growth from the opening of seven new stores during FY2023; and
- the annualising benefit of four stores opened in FY2022, trading for a full financial year in FY2023.

Comparable store sales on a 52-week trading year were negative 3.6% when compared to the prior year. Comparable store sales growth is calculated having regard to the growth of stores that have been open for all of the prior financial year and includes click & collect sales fulfilled from the store. Stores not included in the comparable stores sales growth calculations in FY2023 were the seven stores opened in FY2023 and the four stores opened in FY2022.

Sales from private label and exclusive products were 45.1% of total sales in FY2023, down slightly from 45.3% in FY2022. This has been sustained partly from the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting. Categories where exclusive product ranges have expanded significantly include prams and strollers, cots and furniture and car safety (ie car seats). On a standalone basis, exclusive products represented 36.1% of sales (37.1% in FY2022).

Baby Bunting's range of private label products include 4baby, Bilbi and JENGO. Sales of private label products represented 9.0% of sales (8.2% in FY2022).

Total online sales (including click & collect) were 20.0% of total sales, a decline of 8.6% on the prior financial year (22.2% in FY2022). The moderation in online sales reflects a return to more normal consumer shopping behaviours in the post-COVID lockdown periods.

Expenses

Pro forma costs of doing business (CODB) expenses (excluding the impact of AASB 16 lease accounting) as a percentage of sales were 272 basis points higher year-on-year at 31.4% of sales (28.6% of sales in FY2022). In FY2023, pro forma CODB expenses were $161.7 million, up 11.3% on the prior year pro forma CODB expenses of $145.3 million. The increased investment in operating expenditure was driven by:

- four stores opened in FY2022 trading for a full financial year in FY2023;
- seven new stores opened in FY2023;
- the continued investment in the Store Support Centre team, the Distribution Centre team, business processes and business systems to support the expanding store network and to improve the customer experience both in stores and online; and
- one-off start up costs associated with establishing operations in New Zealand ($0.4 million) and one-off start-up costs associated with establishing Baby Bunting's marketplace ($1.2 million).

2.6. Review of the Group's financial position

The Group finished the financial year in a net debt position of $6.2 million, a change of ($5.5 million) on the prior year net debt position of $0.7 million.

Key items for the year include:

- payment of $15.6 million in dividends, relating to the FY2022 final dividend of $11.9 million (paid on 9 September 2022) and the FY2023 interim dividend of $3.6 million (paid on 17 March 2023);
- net investment in inventory of $1.4 million, which includes $7.3 million relating to seven new stores and the inventory build at Wiri, New Zealand Distribution Centre;
- capital expenditure of $8.8 million in FY2023 relating to new stores, store sustenance and continued investment in IT and digital assets; and
- operating cash conversion of 81.7% and free cash flow of $11.9 million.

Dividends

The Board has determined to pay a final dividend of 4.8 cents per share fully franked. Together with the interim dividend of 2.7 cents per share, the total dividend to be paid in respect of FY2023 is 7.5 cents per share, equivalent to approximately 70% of the Group's FY2023 pro forma NPAT.

3. Business strategies and future developments

The Group's strategy has remained constant during the year and is focused on growing its market share and continuing to improve its execution and financial performance.

Since the end of the financial year, the Group has undertaken a review of its operating model, structure and cost of doing business in light of the Group's recent trading performance and current market conditions. As a result, certain business functions have been restructured and a small number of Store Support Centre roles were made redundant.

This strategy has the following key elements:

3.1. Invest in digital to deliver the best possible retailing experience across channels and enable new business models

Baby Bunting has a multi-channel approach to grow market share. Baby Bunting's goal is to create a seamless shopping experience across all channels.

Investments in digital have continued to improve the customer experience across all channels. The loyalty program, Baby Bunting family, was made available across all channels during the year, and plays an important role in enabling a better understanding of customers and personalising shopping journeys.

Continually improving online fulfilment is also a key part of this strategy. Customers can transact online and have goods delivered either directly or obtain the goods via click & collect.

The Group has expanded the number of store-based fulfilment hubs and stores capable of fulfilling online orders to 31 stores across its Australian network. These hubs and stores enable online orders to be fulfilled from selected stores supporting the long-term target of being able to fulfil 90% of metro online orders same day.

The Group launched the Baby Bunting marketplace in June 2023. This curated marketplace facilitates the offer for sale of additional SKUs by third-party sellers on babybunting.com.au. The marketplace capability builds on the Group's e-commence site and provides consumers with access to a broader range of products through the Group's online channel.

3.2. Invest to grow market share from Baby Bunting's core business, including the roll out of new stores and formats, enhanced fulfilment, and new services to existing customers

Baby Bunting's key strategies to grow market share from its core business include:

- improving customer experience. In this regard, Baby Bunting aims to be the leading place for parents and parents-to-be to come to for an extensive product range and great service, advice and guidance at great value everyday;
- performing targeted and effective marketing campaigns. The Group's loyalty program, Baby Bunting family, is enabling the Group to drive more targeted engagement with customers and to develop marketing having regard to customer preferences and product affinities; and
- leveraging the store network to grow the services offered to customers, including car seat installation and the hire of specialty products, such as breast pumps.

Growth from existing stores

The Group's stores historically take an average of four years to mature and generally have stronger comparable store sales growth in the first four years of operation. As a result, the maturity of newer stores should support further growth in comparable store sales. As at the report date, the Group's store network includes a significant proportion of "immature" stores, with 21% of stores less than three years old (17% at the end of FY2022) and with plans to add at least 5 new stores in FY2024.

The Group's click & collect service is a key feature and click & collect sales were 7.7% of all sales (10.4% in FY2022). Click & collect sales are fulfilled in store, providing very convenient fulfilment times for customers.

The Group's store network also facilitates fulfilment of online orders, with 59% of all online orders during the year fulfilled from a store (48% in FY2022). As noted above, this capability helps move the Group towards its long-term target of being able to fulfil 90% of online metro orders same day.

Store network plan

Growing market share through the rollout of new stores is a key part of the Group's growth strategy.

The Group has a store network plan and is looking to continue to grow its network of stores to over 110 stores in Australia and 10 in New Zealand.

This long-term network plan is predicated on the availability of suitable store locations that meet Baby Bunting's rigorous return on investment hurdles. In assessing potential new stores, regard is had to a range of factors including, the demographic profile of the target catchment, existing market share and the estimated effect of any sales re-direction on existing Baby Bunting stores.

In pursuing this network plan, regard is also given to anticipated changes in future consumer behaviour and retail trends. The Group continues to believe in the complementary nature of Baby Bunting's bricks and mortar stores and its online store. That is, online sales in a catchment without a store, increase following the opening of a Baby Bunting store in that same catchment. This highlights the very tactile nature of the industry in which Baby Bunting operates, where first time parents, in particular, like to visit stores to touch, feel and visually assess products as part of the product selection process.

During the financial year ahead, Baby Bunting expects to continue to open new stores as it pursues its store network plan.

3.3. Growth from new markets leveraging Baby Bunting's core competencies and data into adjacent categories, entering new geographies and expanding the value chain

The Group's core competencies include, among other things, large format retailing, merchandising, baby and maternity products, operating a network at scale and private label and product-led retailing. The Group also has an expanding range of insights about baby goods consumers.

During the year, the Group has pursued its strategy of expanding its operations in New Zealand. The Group's first store in New Zealand opened in Auckland in August 2022 with a further three stores expected to open in FY2024, with a target of a network of more than ten stores. To support the store operations, the Group has established a distribution centre in Auckland.

Opportunities might also exist to apply Baby Bunting's skills in adjacent retail categories, where the ability to leverage existing customer insights could greatly expand the potential market opportunities.

While the immediate focus is on growing market share from Baby Bunting's core business, consideration will be given to exploring opportunities that will provide growth in future periods.

3.4. Profit margin improvement by increasing scale, developing private label and exclusive products and leveraging infrastructure to reduce the cost of doing business

The Group's pro forma EBITDA margin was 6.0% (10.0% in FY2022). The Group's Australian operations (that is excluding the costs and revenues of the early stage New Zealand operations) were 6.7% down from 10.4% in the prior year.

During the year, gross margins declined from prior year levels. While gross margins declined in the first quarter, steps were taken after that time to recover gross margin performance. Gross margin for the year was 37.4% which was down 118 basis points on FY2022. The pro forma cost of doing business deleveraged year-on-year, increasing by 272 basis points in FY2023.

The Group offers private label products in strollers, pram, change tables, manchester, babywear, portacots, rockers, toys, consumables and highchair categories. While gross profit margin on private label and exclusive products varies by product, the Group believes that increased sales in these categories will continue to facilitate further margin improvement in future periods.

The Group has also continued to expand the products made available under its private label brand known as JENGO. Products available under this brand include prams, travel cots and other hard goods items, including wooden cots.

Another element of the Group's strategy for profit margin improvement is to target supply chain efficiencies. Supply chain efficiencies were achieved by, among other things, converting certain suppliers from direct-to-store fulfilment to fulfilment by the Distribution Centre and increasing free on board (FOB) purchasing.

In addition, the use of store-based fulfilment hubs will continue to play a critical role in facilitating prompt delivery of online orders.

Other areas of focus continue to be upgrades of selected store elements and store refurbishments.

Further information on likely developments in the Group's operations and the expected results of those operations has not been included in this Directors' Report. The Directors believe that the disclosure of such information, including certain business strategies, projects, and prospects would be likely to result in unreasonable prejudice to the Group's interests.

4. Material business risks and uncertainties

The Group's strategies take into account the expected operating and retail market conditions, together with general economic conditions, which are inherently uncertain.

The Group has a structured risk management framework and internal control systems in place to manage material risks (see page 27 for further information on the Group's risk management framework). Some of the other key risks and uncertainties that may have an effect on the Group's ability to execute its business strategies and the Group's future growth prospects and how the Group manages these risks are set out below.

Risk	Description	Mitigation
External economic factors affecting consumer sentiment	Baby Bunting's performance is sensitive to the current state of, and future changes in, the retail environment and general economic conditions in Australia. A deterioration in consumer confidence, including as a result of increases in interest rates and the rate of inflation, or more generally, may cause consumers to reduce the size or extent of purchases with the Group, which could have an adverse effect on sales and the Group's financial performance. Public health restrictions, of the kind seen introduced with COVID-19, may also affect consumer sentiment.	The Group seeks to ensure that it has a broad range of products across a range of price points, with a focus on value for customers every day. Inventory levels are carefully monitored to minimise the risk of being over-stocked. A large proportion of the Group's inventory is non-seasonal. Attention is paid to ensuring that inventory levels are appropriate for trading conditions. In addition, the Group has identified cost-savings initiatives to seek to ensure that the Group's cost profile is appropriate for the anticipated level of sales.
Business interruption	The COVID-19 pandemic has been an example of an event that has given rise to significant business interruption since its emergence in Australia around March 2020. Other unanticipated events such as natural disasters, wars, strikes and epidemics have the potential to materially affect the Group through their impact on supply chain, consumer behaviour and company operations. Some may pose a threat to the health and safety of those who work and shop with the Group. These events can arise rapidly with little or no warning and their duration and the subsequent recovery period is uncertain and may be protracted.	The Group has a risk management framework intended to identify key risks and develop risk control measures. Mitigants include seeking to avoid over-concentration on a key supplier or provider (of goods or services). Business continuity and disaster recovery planning is also undertaken.

Risk	Description	Mitigation
Competitive and digital disruption risks	The Group faces competition from specialty retailers as well as department stores, discount department stores and online only retailers. International online retailers and marketplaces operating in Australia are also sources of current and future competition. Second hand or buy, swap, sell markets, which facilitate the exchange of used baby goods, are also a source of competition for the Group. In addition, direct to consumer operators (without a physical store network) compete with the Group in specific product categories. Competition is based on a variety of factors including price, merchandise range, advertising, store location, store presentation, product presentation, new store roll-out and customer service.	The Group seeks to address competitive risks by focusing on providing customers with competitive prices. In addition, the Group is focused on providing an excellent customer experience — regardless of whether the customer is visiting a Baby Bunting physical store or the online store. Product differentiation through exclusive access to key brands is a strategy to mitigate this risk. Elements of this experience include quality advice, high service levels and a very wide product range.
Supply chain risks	The Group's supply chain is important to ensuring that products are available in-store and online for customers. The key risks associated with Baby Bunting's supply chain include events of global significance that disrupt global supply chains, operational disruption due to catastrophic events such as fire or flood, delays in product delivery or complete failure to receive products ordered. Poor supply chain management could adversely affect the Group's financial performance and customers' experience of shopping with Baby Bunting.	The Group continues to focus on logistics and technology initiatives to ensure that this risk is managed appropriately. While the Group's National Distribution Centre has reduced the need for third party logistics facilities, they remain available to assist in managing supply chain risks by carrying additional inventory.
Supplier relationships	An element of the Group's strategy involves growing its private label and exclusive product offerings. The ability of the Group to continue to offer exclusive products depends upon the relationships it has with suppliers. Any deterioration of those relationships could adversely impact the Group's ability to supply exclusive products or, more generally, to successfully provide customers with a wide range of products at competitive prices.	The Group continues to invest in its merchandising team to continue to ensure that it is appropriately managing relationships with its suppliers.
Workplace and people management risks	Workplace health and safety is a priority at Baby Bunting. Failure to manage health and safety risks could have a negative effect on the Group's reputation and performance. The Group's future performance depends to a significant degree on its key personnel, and its ability to attract and retain experienced and high performing personnel. At times of full or near-full employment, competition to attract and retain employees can become more pronounced with the result that the time and costs to recruit increase. This may impact the Group's ability to achieve its operational and business transformation objectives.	The Group has a Safety Management System, which includes a Health, Safety and Injury Management Policy, with the aim of identifying and assessing workplace health and safety risks as well as educating employees in stores, at the Support Office and at the Distribution Centre about safe ways of working. The Group's remuneration policies and practices seek to ensure that executives and managers are provided with appropriate incentives and rewards to support their retention. In addition, the Group continues to make investments in training and development to further expand the skills of the Group's employees.

Risk	Description	Mitigation
Cyber, technology and information risks	In common with other retailers, the Group faces a range of cyber risks. This is a broad concept and encompasses a variety of risks that could impact computer systems and that could result in unauthorised access or disclosure of information held by the Group (including the personal information of our customers), the commission of fraud or theft, or the disruption of normal business operations. The Group relies on its IT systems, retail point of sale and inventory management systems, networks and backup systems, and those of its external service providers, such as communication carriers and data providers, to process transactions (including online transactions), manage inventory, report financial results and manage its business. A malfunction of IT systems or a cybersecurity violation, could adversely impact Baby Bunting's ability to trade and to meet the needs of its customers. Unauthorised disclosure of, or unauthorised access to, personal information under the control of the Group could have an adverse effect on the Group's reputation and ultimately the Group's financial performance.	The Group has a continuing focus on IT systems and security, with the aim of ensuring that the IT systems are available to support the Group's operations and that steps are being taken to protect against adverse IT and cyber related events. Investments in security systems and processes continue to be made. IT infrastructure and data assets have been migrated to an external data centre and the Group remains focused on constantly improving its ability to prepare and respond to a cyber attack or other adverse event. The Group also has systems and processes in place designed to appropriately use and secure customers' personal information.
Regulatory compliance	Baby Bunting is subject to government laws and regulations, including competition and consumer laws, taxation and workplace health and safety laws. Many of the products sold in Baby Bunting's stores or online must comply with mandatory product safety standards. In addition, products Baby Bunting sells must comply with general product safety requirements under applicable law and also meet the expectations of our consumers. Failure to do so may require the Group to, among other things, undertake a recall of products or take other actions. This may adversely affect the Group's reputation and performance and result in significant financial penalties.	The Group has procedures to assess compliance issues of the products that it supplies, as well as procedures to respond to and investigate reports of product safety incidents that it receives. Investments in the Group's quality assurance and compliance team and equipment continue to ensure that product compliance remains a key focus. The Group also engages an external compliance advisory company that performs periodic audits of product compliance and provides training and advice on particular compliance matters.
Business transformation risks	The Group has a plan to continue making investments in new technology systems, including core system enhancements and other technology projects. A failure to implement technology changes effectively or to manage and complete projects successfully could have an adverse effect on the Group's financial performance where new technology or projects cost more, take more time to implement and/or fail to achieve anticipated business benefits.	The Group seeks to manage this risk through appropriate project management and resourcing.

Risk	Description	Mitigation
Property roll-out risks	The Group's new store roll-out strategy depends upon securing properties that meet the Group's rigorous selection criteria, at financially viable rents. A failure to secure appropriate sites could impact the Group's financial performance and position. As the Group's stores are leased the ability to continue in a store is subject to negotiation at the end of each lease term. Additionally, increases in materials and labour in the construction industry may lead to increases in store development costs.	The Group actively manages its property portfolio to ensure appropriate sites continue to be available for its stores. The Group has a Group Property Leasing Manager who builds and maintains relationships with landlords and focuses on new market opportunities.
Environmental, social and governance (ESG) responsibility	The Group's stakeholders (customers, suppliers, team and shareholders) have expectations for Baby Bunting on a range of environmental, social and governance matters. A failure to acknowledge and adequately address these expectations over time could negatively impact the Group's reputation and profitability.	Baby Bunting has adopted a sustainability strategy and commenced reporting on its approach to ESG matters in its Sustainability Report. Baby Bunting also discloses the manner in which it seeks to eliminate the risk of modern slavery in its operations and supply chain in its Modern Slavery Statement.

5. Significant changes in the state of affairs in FY2023

There were no significant changes in the state of affairs of the Group during the financial year.

6. Matters subsequent to the end of the financial year

Apart from the determination to pay a final dividend in respect of the financial year ended 2 July 2023, no matter or circumstance has arisen since the end of the financial year which has not been dealt with in this Directors' Report or the Financial Report, and which has significantly affected, or may significantly affect:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

7. Dividends

The following dividends have been paid to shareholders during the financial year:

Dividend	$'000
Final dividend in respect of the financial year ended 26 June 2022 (9.0 cents per share fully franked)	**11,921**
Interim dividend in respect of the half year ended 26 December 2022 (2.7 cents per share fully franked)	**3,642**

The Board has determined to pay a final dividend in respect of the financial year ended 2 July 2023 of 4.8 cents per share.

This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 25 August 2023 and the dividend payment date is 8 September 2023. The final dividend of 4.8 cents per share, when combined with the interim dividend of 2.7 cents per share, represents a payout ratio of approximately 70% of the full year pro forma NPAT.

8. Directors

The following persons were Directors of Baby Bunting Group Limited during the financial period and/or up to the date of this Directors' Report:

Director	Position	Date appointed	Date retired
Melanie Wilson	Chair	15 February 2016	–
Matt Spencer	CEO and Managing Director	23 April 2012*	2 June 2023
Gary Levin	Non-executive Director	25 August 2014	–
Donna Player	Non-executive Director	16 January 2017	–
Gary Kent	Non-executive Director	12 December 2018	–
Francine Ereira	Non-executive Director	1 September 2021	–
Stephen Roche	Non-executive Director	1 September 2021	–

* Matt Spencer commenced as Chief Executive Officer in February 2012. He was appointed a Director on 23 April 2012. He ceased to be a Chief Executive Officer and a director on 2 June 2023. At financial year end he remains an employee and is expected to cease employment on 31 December 2023.

Details of the qualifications, experience and special responsibilities of each current director are set out on pages 12 and 13 of the Annual Report.

9. Meetings of Directors and Board Committees

The number of meetings of the Board and each Board Committee held during the period ended 2 July 2023 are set out below. All directors are invited to attend Board Committee meetings and most Board Committee meetings are attended by all directors. However, only attendance by directors who are members of the relevant Board Committee is shown in the table below.

	Meetings of directors		Audit and Risk Committee		Remuneration and Nomination Committee	
Director	Attended	Held	Attended	Held	Attended	Held
Melanie Wilson	14	14	—	—	2	2
Matt Spencer	12	12	—	—	—	—
Gary Levin	13	14	6	6	—	—
Donna Player	14	14	—	—	6	6
Gary Kent	14	14	6	6	6	6
Francine Ereira	14	14	—	—	6	6
Stephen Roche	14	14	6	6	—	—

Attended = Number of meetings attended by the director.

Held = Number of meetings held during the time the director held office or was a member of the committee during the year.

Matt Spencer retired as a director on 2 June 2023.

10. Directors' relevant interest in shares

The following table sets out the relevant interests that each director has in the Group's ordinary shares or other securities as at the date of this Directors' Report.

Director	Ordinary shares	Performance rights
Melanie Wilson	30,000	Nil
Matt Spencer (ceased to be a director on 2 June 2023)	1,503,342	845,000
Gary Levin	220,000	Nil
Donna Player	36,000	Nil
Gary Kent	32,000	Nil
Francine Ereira	25,531	Nil
Stephen Roche	35,000	Nil

11. Company secretaries

Corey Lewis is the Group Legal Counsel and Company Secretary. He commenced employment with the Group in February 2016 and was appointed company secretary in March 2016. Before joining Baby Bunting, Corey worked as a corporate lawyer at a national law firm. He holds a Bachelor of Laws (Hons) and a Bachelor of Arts. He is also a graduate of the Australian Institute of Company Directors.

Darin Hoekman, the Group's Chief Financial Officer, is also a company secretary having been appointed in January 2014. Darin is a Chartered Accountant and holds a Bachelor of Commerce.

12. Details of performance rights

The Chief Executive Officer was the only Director eligible to participate in the Group's long term incentive plan (LTI Plan). Further details of the LTI Plan are set out on pages 54 to 61 of the Remuneration Report. Each performance right entitles the holder to receive one fully paid share in the Group, subject to the satisfaction of the applicable performance conditions.

During the financial year, the Group granted 1,370,000 performance rights under the LTI Plan. In addition, 2,171,181 performance rights vested and were exercised with a further 139,819 rights lapsing as the relevant performance conditions were not satisfied. 660,000 performance rights were forfeited in accordance with the rules of the LTI Plan upon some plan participants ceasing employment.

All of the performance rights granted during the financial year are subject to performance conditions (see pages 55 and 56 of the Remuneration Report for more details).

Performance right event	Issue price	Number of performance rights
Opening balance (27 June 2022)		6,346,000
Vesting of rights (6 December 2022)	n/a	(2,171,181)
Lapse of rights (6 December 2022)	n/a	(139,819)
Grant of rights under the LTIP Plan – FY2022 to FY2025 award (8 December 2022)	nil	1,370,000
Forfeiture of rights (7 April 2023)		(660,000)
Closing balance		4,745,000

13. Details of options

There are no options over shares on issue as at the date of this Directors' Report and no shares were issued during the year as a result of the exercise of options.

14. Remuneration Report

The Remuneration Report, which forms part of this Directors' Report, is presented separately from page 47.

15. Indemnification and insurance of directors and officers and the auditor

Under the Group's Constitution, to the fullest extent permitted by law, the Group must indemnify every officer of the Group and its wholly-owned subsidiaries, and may indemnify its auditor against any liability incurred as such an officer or auditor to a person (other than the Group or a related body corporate).

The Group has entered into a deed of access, indemnity and insurance with each Non-executive Director and the Chief Executive Officer which confirms each person's right of access to certain books and records of the Group while they are a Director and after they cease to be a Director. The deed also requires the Group to provide an indemnity for liability incurred as an officer of the Group and its subsidiaries, to the maximum extent permitted by law.

The Constitution also allows the Group to enter into and pay premiums on contracts of insurance, insuring any liability incurred by a current or former Director and officer of the Group. The deed of access, indemnity and insurance requires the Group to use its best endeavours to maintain an insurance policy, which insures the Director against liability as a Director and officer of the Group from the date of the deed until the date which is seven years after the Director ceases to hold office as a Director.

During the financial year, the Group paid insurance premiums for a directors' and officers' liability insurance contract that provides cover for the current and former directors, secretaries, executive officers and officers of the Group and its subsidiaries. The Directors have not included details of the nature of the liabilities covered in this contract or the amount of the premium paid, as disclosure is prohibited under the terms of the contract.

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

16. Proceedings on behalf of the Group

No proceedings have been brought or intervened in on behalf of the Group with the leave of the court under section 237 of the Corporations Act. No person has applied to the court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party.

17. Environmental regulation

The Group is not involved in activities that have a marked influence on the environment within its area of operation. As such, the Directors do not consider that the Group's operations are subject to any particular and significant environmental regulation in Australia.

18. Non-audit services

The Group may decide to employ its external auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and assurance services ($220,300) (FY2022: $191,400) and for non-audit services $27,817 (FY2022: $30,435) provided during the year are set out in the Financial Statements (at Note 29). The major element of non-audit services during the year related to taxation services.

The Board has considered the position and in accordance with advice received from the Audit and Risk Committee, is satisfied that the provision of non-audit services is compatible with the general standard of independence imposed on auditors by the Corporations Act. The Directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact on the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

19. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act is attached to this Directors' Report on page 68.

20. Rounding of amounts

The Group has taken advantage of ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the "rounding off" of amounts in the Directors' Report and Financial Statements. Amounts in these reports have been rounded off in accordance with that instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

The Directors' Report is made in accordance with a resolution of Directors.

On behalf of the Directors

Melanie Wilson

Melanie Wilson
Chair

11 August 2023

Remuneration report

The Remuneration Report sets out remuneration information for the Company's Non-executive Directors and the other key management personnel identified in Section 1 (disclosed executives) for the year ended 2 July 2023. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the Corporations Act 2001.

1. Key management personnel

The Company's key management personnel are its Non-executive Directors and those executives who have been identified as having the greatest authority for planning, directing and controlling the activities of the Group.

Non-executive Directors	
Melanie Wilson	Non-executive Director
Gary Levin	Non-executive Director
Donna Player	Non-executive Director
Gary Kent	Non-executive Director
Francine Ereira	Non-executive Director
Stephen Roche	Non-executive Director
Disclosed executives	
Matt Spencer (ceased on 2 June 2023)[1]	Chief Executive Officer
Darin Hoekman	Chief Financial Officer and Acting CEO[2]

1. As announced on 23 May 2023, Matt Spencer ceased as Chief Executive Officer and a director of the Group on 2 June 2023. He continues as an employee and is expected to cease employment on 31 December 2023.
2. Darin Hoekman was appointed Acting Chief Executive Officer with effect on 2 June 2023. It is anticipated he will cease in that role upon the commencement of Mark Teperson as Chief Executive Officer on 2 October 2023.

2. Remuneration governance

Ultimately, the Board is responsible for the Company's remuneration policy and practices. To assist the Board with this, it has established the Remuneration and Nomination Committee (Committee). The Committee's role is to review and make recommendations to the Board on remuneration policies and practices and to ensure that the remuneration policies and practices are consistent with the strategic goal of the Board to build and deliver value to shareholders over the long term.

A copy of the Committee's Charter is available at investors.babybunting.com.au. It sets out further details of the Committee's specific responsibilities and functions.

Details of the composition of the Committee and the meetings held during the year are set out on page 43 of the Directors' Report.

3. Remuneration outcomes for FY23

3.1. Actual remuneration received

This Section 3.1 has been included in the Remuneration Report to show the "realised" remuneration of the disclosed executives.

The table in this Section 3.1 supplements, and is different to, the statutory remuneration tables (see Section 8) which presents the accounting expenses for both vested and unvested performance rights in accordance with Australian Accounting Standards.

The table shows the remuneration the Chief Executive Officer and the Chief Financial Officer realised in relation to the 2023 financial year as cash, or in the case of prior equity awards, the value which vested in FY2023 using a share price of $2.75 per share (as described below). By way of comparison, the Company's share price at the end of the financial year was $1.38.

		Fixed remuneration[1] $	STI variable cash remuneration $	Total cash $	Long term incentives which vested during the year[2] $	Actual remuneration received $	Long term incentives which lapsed/forfeited during the year[3] $
Disclosed executives							
Matt Spencer	2023	671,397	–	**671,397**	1,377,070	**2,048,467**	(88,679)
	2022	607,793	–	**607,793**	3,510,000	**4,117,793**	–
Darin Hoekman	2023	493,672	–	**493,672**	967,566	**1,461,238**	(62,310)
	2022	433,426	–	**433,426**	3,321,750	**3,755,176**	–

1. Fixed remuneration includes superannuation contribution.
2. During FY2023, the vested performance rights were the performance rights granted under the FY2019 to FY2022 award that were assessed against a TSR CAGR performance condition and an EPS CAGR performance condition (500,753 rights vested for Matt Spencer and 351,842 rights vested for Darin Hoekman). To determine a monetary value for the rights that vested, the closing share price of $2.75 (being the closing price on 6 December 2022 which was the date of issue of shares following the exercise of the vested rights) has been used. See Section 3.4.
3. The value of the long term incentives which lapsed/forfeited during the year was determined by multiplying the number of rights that lapsed by $2.75, being the share price on 6 December 2022.

3.2. FY2023 fixed remuneration – disclosed executives

The remuneration of disclosed executives is reviewed by the Board annually, with any changes to take effect in September. Following this review the Board increased the fixed annual remuneration of the Chief Executive Officer by 3.5% and the fixed annual remuneration of the Chief Financial Officer by 3.8% with effect from 1 September 2022.

In the period he is performing the role of Acting Chief Executive Officer (2 June to 2 October 2023), Darin Hoekman's fixed annual remuneration will be $625,000 (per annum). He will revert to his former fixed annual remuneration upon him ceasing to perform the role of Acting CEO on 2 October 2023.

3.3. FY2023 short term incentive payments

The Company's short term incentive plan operated again for the 2023 financial year. For the 2023 financial year, pro forma NPAT growth was negative 51.0%. The "threshold" growth target level for short term incentive payments was set at 15% pro forma NPAT year-on-year inclusive of the costs of any short term incentive payments. As the threshold growth target level was not achieved, no STI payments were awarded under the plan for FY2023.

See Section 6.3 for further details.

3.4. FY2019 to FY2022 performance rights – vesting of TSR Rights and EPS Rights

On 6 December 2022, the Company issued a total of 2,171,181 ordinary shares to eligible participants in the Company's Long Term Incentive Plan upon vesting of the TSR Rights and EPS Rights that had been provided under the FY2019 to FY2022 grant.

The TSR compound annual growth rate of the Company's total shareholder return in the period from 30 September 2019 to the end of the 2022 VWAP period (ie 1 July 2022 to 30 September 2022) was 18.3% (including dividends reinvested). At this level, 87.9% of available TSR Rights vested. 139,819 TSR Rights lapsed.

The EPS compound annual growth rate of the Company's earnings per share from the end of FY2019 to the end of FY2022 exceeded 20%. At this level, all available EPS Rights vested.

The Chief Executive Officer received 500,753 shares and the Chief Financial Officer received 351,842 shares. These rights vested following satisfaction of the TSR compound annual growth performance hurdle and the EPS compound annual growth performance hurdle.

Half of the shares provided to each participant are subject to a 12-month holding restriction. Participants will first be able to deal with those shares on 6 December 2023 (subject to complying with the Company's Securities Trading Policy).

See Section 6.4.4 for further details.

3.5. Grant of performance rights (FY2022 to FY2025 grant)

Following shareholder approval at the 2022 AGM, the Company granted the Chief Executive Officer, 180,000 performance rights under the FY2022 to FY2025 grant. Approval for the grant was obtained under ASX Listing Rule 10.14. An additional 1,190,000 performance rights were granted on the same terms to eleven other executives (including the Chief Financial Officer who was granted 175,000) participating in the Company's Long Term Incentive Plan.

Details of the terms and conditions of this grant are contained in Section 6.4.1 below.

3.6. 8th Employee Share Plan Gift Offer

The Company conducted its 8th Employee Share Plan Gift Offer in October 2022 and provided 783 team members $1,000 of Baby Bunting shares. The Company has operated this gift share program for each year since its IPO in 2015 and around 44% of team members are currently shareholders. See Section 6.6 below.

4. Key developments and future changes

4.1. CEO succession

As noted earlier in this Annual Report, the retirement of Matt Spencer was announced on 17 February 2023 with him ceasing to be an executive director on 2 June 2023. He continues as an employee and is expected to cease employment on 31 December 2023.

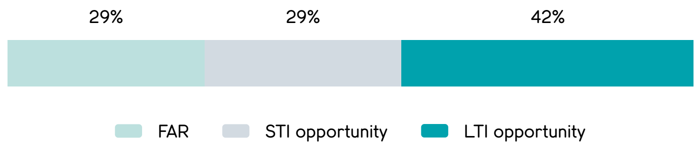
Following a detailed search, the Board announced the appointment of Mark Teperson as Chief Executive Officer commencing on 2 October 2023. Details of the material remuneration terms of his employment contract are:

- fixed annual remuneration (FAR) of $850,000 (inclusive of superannuation);
- an opportunity to participate in the Company's STI Plan for FY2024 with a variable STI opportunity up to 100% of FAR;
- subject to shareholder approval, an opportunity to participate in the Company's Long Term Incentive Plan for the three year performance period from the end of FY2023 to FY2026. The performance rights granted will provide Mark with a target variable LTI opportunity of 100% of his FAR and a maximum variable LTI opportunity of 150% of his FAR;
- consistent with recent grants under the Company's LTI Plan, 60% of the rights will be assessed against an absolute TSR CAGR performance condition and 40% of the rights will be assessed against an absolute EPS CAGR performance condition; and
- subject to shareholder approval, Mark will be provided with a one-off grant of 467,289 rights under the Company's LTI Plan. One third of these rights will vest and become exercisable on each of the first, second and third anniversary of the commencement date of Mark's employment. Vesting is conditional upon Mark being employed by the Company (and not serving out a period of notice) at the time of vesting.

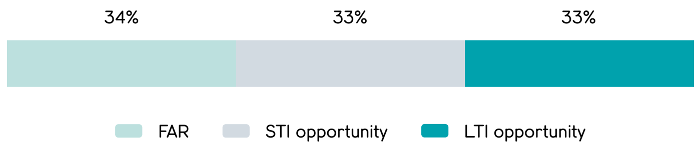
4.2. FY2024 remuneration mix

For FY2024, the Board has elected to specify a target remuneration mix for the incoming Chief Executive Officer and the Chief Financial Officer that provides "at-risk" remuneration that is a fixed proportion of fixed annual remuneration.

The incoming Chief Executive Officer has an STI opportunity equal to 100% of his fixed annual remuneration and an LTI opportunity equal to 150% of his fixed annual remuneration. The total remuneration mix is:



The Chief Financial Officer has an STI opportunity equal to 100% of his fixed annual remuneration and an LTI opportunity equal to 100% of his fixed annual remuneration. The total remuneration mix is:



4.3. FY2024 short-term incentive plan

The FY2024 short-term incentive plan will operate on a similar basis to the prior years: there will be no eligibility to receive any payments until the Board's earnings growth target has been achieved and the participant has achieved satisfactory ratings in respect of their performance and values.

4.4. Long term incentive plan – FY2023 to FY2026 grant

The Board intends to grant Mark Teperson, as the incoming Chief Executive Officer, performance rights, subject to approval by shareholders at the 2023 AGM. In addition, other participants (including the Chief Financial Officer) will participate in the proposed grant. The total number of rights to be granted will be determined by dividing a fixed percentage of each participant's fixed annual remuneration by the Company's share price during a 1 month pricing period commencing on 1 August 2023.

The incoming Chief Executive Officer will be granted rights based on 150% of his fixed annual remuneration.

The Chief Financial Officer will be granted rights based on 100% of his fixed annual remuneration.

4.5. Minimum shareholding policy

During the year, the Board adopted a minimum shareholding policy for directors and key management personnel. A person subject to the policy is required to achieve and maintain a minimum shareholding in the Company's shares equivalent to 100% of their fixed annual remuneration. Participants must accumulate the shareholding within the later of 5 years after the adoption of the policy or their date of appointment.

5. Relationship between remuneration and the Company's performance

The following table shows key performance indicators for the Company over the last five years.

	2019[1]	2020	2021[2]	2022	2023	Growth in 2023	CAGR last 5 years
EBITDA (statutory) $'000	46,281	46,119	56,833	67,052	60,433	-9.9%	7%
Net profit after tax (statutory) $'000	11,646	9,986	17,039	19,521	9,854	-49.5%	-4%
Net profit after tax (pro forma) $'000	14,388	19,291	26,031	29,573	14,504	-51.0%	0%
Dividends per share – ordinary (cents)	8.4	10.5	14.1	15.6	7.5	-51.9%	-3%
Basic earnings per share (cents) (statutory)	9.2	7.8	13.2	14.9	7.4	-50.5%	-5%
Earnings per share (cents) (pro forma)	11.4	15.2	20.2	22.5	10.8	-51.9%	-1%
Share price at the end of the financial year	$2.16	$3.30	$5.42	$4.14	$1.38	-66.7%	-11%

1. At the end of FY2020, the results for FY2019 were restated to reflect the full retrospective adoption of the lease accounting standard AASB 16. Refer to Note 2(x) in the Financial Report for the year ended 28 June 2020.
2. At the end of FY2022, the results for FY2021 were restated to reflect changes in the accounting policy in relation to configuration and customisation costs incurred in implementing SaaS arrangements. Refer to Note 2(aa) for detailed information on restatement of comparatives in the Financial Report for the year ended 26 June 2022.

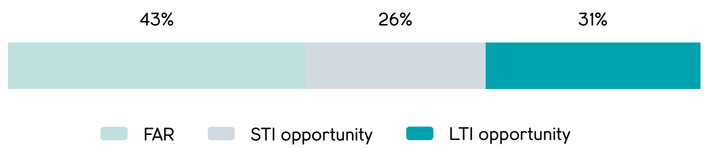
6. Remuneration policy and practices

6.1. Remuneration mix

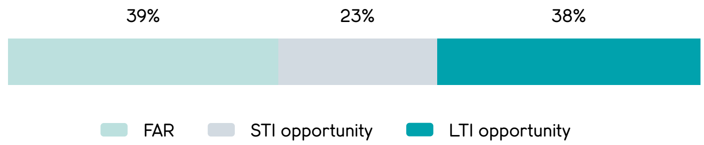
The Company's remuneration policy seeks to appropriately reward, incentivise and retain key employees, by providing a link between remuneration outcomes and both the Company's and an individual's performance.

The remuneration practices adopted by the Company include the use of fixed and variable remuneration, and short term and long term performance based incentives.

For FY2023, the target remuneration mix for the Chief Executive Officer can be represented below:



For FY2023, the target remuneration mix for the Chief Financial Officer can be represented as set out below:



These representations use the amount of fixed annual (including superannuation) as at 1 September 2023 (being the date at which the fixed annual remuneration amount was most recently reviewed).

STI opportunity is calculated by reference to the maximum STI amount available (being 60% of fixed annual remuneration). Noting that for FY2023, no STI amount is payable to the Chief Executive Officer and the Chief Financial Officer (for the reasons described in Section 6.3 below).

The LTI opportunity is the number of share rights granted in December 2022 multiplied by the Company's share price on the date of grant (being $2.67).

6.2. Fixed remuneration

Fixed remuneration for employees is determined according to industry standards, relevant laws, labour market conditions and the profitability of the Company. It consists of fixed annual remuneration and superannuation. Fixed annual remuneration includes cash salary and any salary sacrifice items.

The Company provides employer superannuation contributions at Government legislated rates, capped at the relevant contribution limit unless part of a salary sacrifice election by an employee.

Fixed remuneration is reviewed annually and adjusted where appropriate. There is no guaranteed or automatic entitlement to an increase in fixed remuneration (other than to comply with any applicable legal requirements).

6.3. Short term incentives

The Company operates short term incentive plans for eligible employees, including executives and employees in other management or specialist roles.

Under the Company's principal short term incentive plans (STI plans), a cash bonus can be paid to an eligible employee, subject to the achievement of a range of financial and additional key performance indicators for the relevant financial year. Participation in, and payments under, the STI plans for a financial year are at the discretion of the Board. The annual key performance indicators for participants and related targets are also reviewed annually.

Gateway for short term incentive payments for FY2023

For participants to become eligible to receive a payment under the STI plans in FY2023, there were the following gateways:

- the participant's performance evaluation rating for the year must exceed an acceptable rating for both performance and values, as assessed by the participant's manager or, in the case of the Chief Executive Officer, the Board; and
- the Company's pro forma NPAT (inclusive of payments to be made under the STI plans) must be at least 15% higher than the prior year (this is known as "threshold" growth).

Potential STI payments for FY2023

For FY2023, the Chief Executive Officer and the Chief Financial Officer had the opportunity to earn a maximum short term incentive payment of an amount equal to 60% of their fixed annual remuneration. At "threshold" growth, the opportunity was equal to 20% of fixed annual remuneration. Where pro forma NPAT growth exceeds "threshold" growth of 15%, the potential STI payment increases on a scale up to 60% of fixed annual remuneration if pro forma NPAT growth is at or beyond 30%. This scaling is to encourage and reward performance in achieving extraordinary NPAT growth.

Performance conditions and determining the potential STI benefits for FY2023

The size of each participating executive's actual STI payment is determined by applying financial and additional criteria.

There is a large weighting of the performance conditions to the Company's financial performance (which represent 70% of the weighting of the potential STI benefit), reflecting the principle that benefits under the STI plan are to be provided primarily when the Company has performed well.

The additional criteria represent 30% of the potential STI benefit and were selected to focus on particular commercial, operational or sustainability goals.

Once "threshold" growth has been met (and the other gateways for eligibility have been satisfied), any actual STI payment is based on the extent of the pro forma NPAT growth and the satisfaction of other specific additional performance criteria.

	Minimum potential STI	Maximum potential STI	Potential STI for FY2023
	If pro forma NPAT growth of 15% is achieved	**If pro forma NPAT growth of 30% is achieved**	**Pro forma NPAT growth of below 15%**
Achievement of pro forma NPAT condition	21% of fixed annual remuneration becomes payable	42% of fixed annual remuneration becomes payable	0% of fixed annual remuneration becomes payable
Achievement of all additional performance criteria (KPIs)	9% of fixed annual remuneration becomes payable	18% of fixed annual remuneration becomes payable	0% of fixed annual remuneration becomes payable
Total STI potential STI payment	30% of fixed annual remuneration	60% of fixed annual remuneration	0% of fixed annual remuneration

The pro forma NPAT growth against the prior year was negative 51.0%. Accordingly, no STI payments were awarded under the plan for FY2023.

The additional performance criteria that applied to the disclosed executives for FY2023 were:

Disclosed executives	Additional criteria	Comment
KPI #1	Achievement of Net Promoter Score performance and Lost Time Injury Frequency Rate (LTIFR)	This was not achieved as LTIFR finished the year at 11.33 above the target of less than 10
KPI #2	New Zealand operations with Albany sales exceeding target and Christchurch store trading	This was not achieved. Christchurch store is expected to open in FY2024
KPI #3	Employee engagement above targeted levels	Employee engagement assessments are scheduled to occur in FY2024
KPI #4	Marketplace launched	This was achieved with marketplace commencing in June 2023
KPI #5	Gross margin performance (for Australia) at above target levels	This was not achieved as gross margin finished the year at 37.4%
KPI #6	Transformation projects progressed	This was not achieved. The ERP/POS replacement project remains outstanding

These performance criteria were selected to provide an incentive to participating executives to achieve specific targets relevant to the business as well as contributing to the overall financial performance of the Company.

Assessment of whether the performance criteria have been satisfied for participating executives is undertaken by the Chief Executive Officer with any decision to award a payment approved by the Board. In relation to the Chief Executive Officer, the Board assesses the relevant performance criteria and approves any STI payment.

For the disclosed executives, 100% of the potential STI payment was forfeited.

If they are awarded, STI plan benefits are paid in cash and reflect amounts earned during the financial year and are provided for in the annual financial statements.

6.4. Long term incentives

The Long Term Incentive Plan (LTI Plan) is designed to align the interests of disclosed executives and participating employees more closely with the interests of the Company's shareholders by providing an opportunity for eligible employees to receive an equity interest in the Company through the grant of "rights". Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company. Participation in a grant under the LTI Plan is by invitation. The Board may determine which executives or other employees are eligible.

For grants of performance rights, whether a right vests depends upon the achievement of performance conditions. For this purpose, the Board has selected two performance conditions being:

- growth in the Company's profit (as measured by earnings per share growth); and
- growth in returns to shareholders (as measured by total shareholder return, which includes share price appreciation and dividends reinvested).

The conditions are measured on an absolute basis – that is, growth is measured having regard to the Company's earnings or share price from a prior period. The Board considers this to be appropriate given the current stage of the Company's development and the desire to ensure that management seek sustainable and profitable growth. On this basis, rewards to participating executives are firmly linked to the performance of the Company.

During the 2023 financial year, a single grant was made under the LTI Plan and details of that grant are provided in Section 6.4.1.

Information on grants made in previous years that remain outstanding are also contained in this section. As at 2 July 2023, the number of performance rights outstanding was:

Long Term Incentive Plan grant	EPS Rights	TSR Rights
Performance rights		
FY2020 to FY2023 grant	1,180,000	1,180,000
FY2021 to FY2024 grant	478,000	717,000
FY2022 to FY2025 grant	476,000	714,000
Total	**4,745,000**	

The Board will determine in October 2023 whether the FY2020 to FY2023 grant of EPS Rights and TSR Rights have vested having regard to the compound annual growth rate in EPS and TSR. The 1,180,000 EPS Rights from the FY2020 to FY2023 grant have not meet the EPS CAGR performance hurdle and all of those rights will lapse.

6.4.1 FY2022 to FY2025 performance rights grant

During the 2023 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2022 to FY2025. This grant is referred to as the FY2022 to FY2025 grant.

Under this grant, the Board granted 1,370,000 performance rights (in total) to the Chief Executive Officer, the Chief Financial Officer and ten other participating executives (180,000 rights lapsed during the year). The grant to the Chief Executive Officer was approved by shareholders at the Company's 2022 AGM.

Terms and conditions of the FY2021 to FY2024 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. 40% of the rights granted are subject to the EPS growth performance condition (EPS Rights). 60% of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of pro forma EPS in FY2022 (being 15.6 cents per share). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 26 June 2022 (excluding any unusual items but including the statutory employee equity incentive expense) by the average weighted number of ordinary shares on issue for the 2022 financial year.
TSR growth performance condition	The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $4.49 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2022 to 30 September 2022). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2025 (inclusive) or such other period as the Board considers appropriate.

Performance periods	The performance period ends after the conclusion of FY2025. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights • 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.

6.4.2 FY2021 to FY2024 performance rights grant (historical)

During the 2022 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2021 to FY2024. This grant is referred to as the FY2021 to FY2024 grant.

Under this grant, the Board granted 1,375,000 performance rights (in total) to the Chief Executive Officer, the Chief Financial Officer and ten other participating executives (180,000 rights lapsed during the year). The grant to the Chief Executive Officer was approved by shareholders at the Company's 2021 AGM.

Terms and conditions of the FY201 to FY2024 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. 40% of the rights granted are subject to the EPS growth performance condition (EPS Rights). 60% of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of pro forma EPS in FY2021 (being 14.1 cents per share). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 27 June 2021 (excluding any unusual items but including the statutory employee equity incentive expense) by the average weighted number of ordinary shares on issue for the 2021 financial year.

TSR growth performance condition	The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $5.55 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2021 to 30 September 2021). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2024 (inclusive) or such other period as the Board considers appropriate.
Performance periods	The performance period ends after the conclusion of FY2024. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights. • 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.
Post-vesting disposal restriction	Once the performance right has vested, the participant will have two years in which to exercise the vested right and be provided with a share. To ensure ongoing alignment with shareholders, half of any shares that are issued to a participant upon vesting and exercise of a right will be subject to a 12 months disposal restriction.

6.4.3 FY2020 to FY2023 performance rights grant (historical)

During the 2021 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2020 to FY2023. This grant is referred to as the FY2020 to FY2023 grant.

Under this grant, the Board granted 2,660,000 performance rights (in total) to the Chief Executive Officer, the Chief Financial Officer and ten other participating executives (300,000 rights lapsed during the year). The grant to the Chief Executive Officer was approved by shareholders at the Company's 2020 AGM.

Terms and conditions of the FY2020 to FY2023 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS from a base level of pro forma EPS in FY2020 (being 15.2 cents per share). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 28 June 2020 (excluding the expense of the LTI Plan recognised in the Company's statutory financial statements and any unusual items) by the number of shares on issue as at 28 June 2020.
TSR growth performance condition	The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $4.09 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2020 to 30 September 2020). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2023 (inclusive) or such other period as the Board considers appropriate.
Performance periods	The performance period ends after the conclusion of FY2023. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.
Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights. • 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.
Post-vesting disposal restriction	Once the performance right has vested, the participant will have two years in which to exercise the vested right and be provided with a share. To ensure ongoing alignment with shareholders, any shares that are issued to a participant upon vesting and exercise of a right will be subject to a 12 months disposal restriction.

6.4.4 FY2019 to FY2022 performance rights grant (historical)

During the 2020 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2019 to FY2022. This grant is referred to as the FY2019 to FY2022 grant.

Under this grant, the Board granted 2,311,000 performance rights (in total) to the Chief Executive Officer, the Chief Financial Officer and six other participating executives. The grant to the Chief Executive Officer was approved by shareholders at the Company's 2019 AGM.

Terms and conditions of the FY2019 to FY2022 performance rights grant

Performance conditions and performance periods	The number of rights that vest will be determined by reference to two performance conditions: • earnings per share (EPS) growth; and • total shareholder return (TSR) growth. Half of the rights granted are subject to the EPS growth performance condition (EPS Rights). The other half of the rights granted are subject to the TSR growth condition (TSR Rights). Both of these conditions are expressed as a compound annual growth rate (CAGR) percentage.
EPS growth performance condition	The EPS growth performance condition is a measure of the compound annual growth rate in the Company's EPS measured over the relevant performance period. EPS growth will be measured as the annual compound percentage increase in the Company's EPS (calculated before the application of AASB 16) from a base level of pro forma EPS in FY2019 (being 12.0 cents per share – calculated before the application of AASB 16). This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 30 June 2019 (excluding the expense of the LTI Plan recognised in the Company's statutory financial statements and any unusual items) by the number of shares on issue as at 30 June 2019.
TSR growth performance condition	The TSR growth performance condition is a measure of the compound annual growth of the Company's TSR measured over the relevant performance period with $2.95 used as the base level. (This number was the volume weighted average price of the Company's shares on ASX in the period 1 July 2019 to 30 September 2019). The compound annual growth rate in the Company's TSR is measured at the end of the relevant performance period, having regard to the volume weighted average sale price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2022 (inclusive) or such other period as the Board considers appropriate.
Performance periods	The performance period ends after the conclusion of FY2022. If a performance right does not vest at the end of this performance period it lapses. There is no retesting.

Vesting schedule	• 30% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 10% EPS CAGR is achieved; • 100% of the EPS Rights will vest if the EPS growth hurdle of 20% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 20% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the EPS Rights.	• 30% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 10% TSR CAGR is achieved; • 100% of the TSR Rights will vest if the TSR growth hurdle of 20% TSR CAGR is achieved; and • if the TSR CAGR is within the range of 10% to 20% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight-line basis for between 30% and 100% of the TSR Rights.
Post-vesting disposal restriction	Once the performance right has vested, the participant will have two years in which to exercise the vested right and be provided with a share. To ensure ongoing alignment with shareholders, half of any shares that are issued to a participant upon vesting and exercise of a right will be subject to a 12 months disposal restriction.	

LTI outcomes to date under the FY2019 to FY2022 grant

In October 2022, the outstanding rights in relation to the FY2019 to FY2022 grant were assessed by the Board. As the performance conditions had been satisfied, the 2,171,181 rights vested and were exercised and 2,171,181 new ordinary shares were issued in December 2022.

Details of the assessment are below.

TSR performance rights

The TSR compound annual growth rate for the FY2019 to FY2022 grant TSR rights (being 1,155,500 rights) was assessed by reference to volume weighted average sale price on ASX of the Company's shares in the period from 1 July 2022 to 30 September 2022.

On this basis, the total shareholder return compound annual growth rate (including dividends reinvested) over the performance period was 18.3%. At this level, 87.9% of available TSR Rights vested and 139,819 TSR Rights lapsed.

EPS performance rights

For the FY2019 to FY2022 grant, the EPS compound annual growth rate compared the pro forma NPAT for the period ended 26 June 2022 against the reference base of 12.0 cents per share (being a value calculated before the application of the updated AASB 16). On this basis, EPS CAGR exceeded 20%. On this basis, all of the outstanding EPS Rights, being 1,115,500 vested.

A reconciliation between the EPS for FY2022 as used for the purposes of the Long Term Incentive Plan and statutory EPS is set out below:

	2019 $'000	2022 $'000
Pro forma NPAT	**15,149**	**29,573**
Adjustments to Pro forma NPAT		**NPAT Impact**
AASB 16 – impact of accounting changes		807
Adjusted Pro forma NPAT	**15,149**	**30,380**
Shares on issue ('000)	126,441	132,458
Shares to be issued in relation to EPS ('000)		1,115.5
Adjusted Shares on issue ('000)	**126,441**	**133,614**
Pro forma EPS	0.12	0.23
CAGR EPS (on FY19)		**23.8%**

6.5. General comments on rights

Malus and clawback

First introduced for the FY2020 to FY2023 grant, the terms of the Long Term Incentive Plan provide for malus to be applied to unvested awards and for clawback provision to be applied for vested awards. This is to ensure that in the event of serious misconduct or the identification of a serious adverse subsequent event, the relevant participant does not inappropriately benefit in those circumstances.

Treatment on cessation of employment

Upon resignation or in instances where a participant's employment is terminated for cause or as a result of unsatisfactory performance, their unvested rights will lapse. In other circumstances, a person ceasing employment may retain unvested rights with vesting to be tested at the end of the relevant performance period. However, in all cases, the Board has discretion to permit a participant to retain unvested rights, including a discretion to reduce the number of retained unvested rights to reflect the part of the performance period for which the participant was employed.

Shareholder approval has been obtained for the purposes of sections 200B and 200E of the Corporations Act to permit the Company to give a benefit to a participant who holds a managerial or executive office in these circumstances. This approval was obtained at the 2021 annual general meeting and was expressed to be for the period up to the 2024 annual general meeting.

Treatment on change of control

In the event of a change of control of the Company, the Board has discretion to determine whether a change in control has occurred and the treatment of the rights at that time. Treatment may include permitting some or all outstanding unvested rights to vest or determining that unvested rights have lapsed.

Other conditions

Subject to the ASX Listing Rules (where relevant), a participant may only participate in new issues of shares or other securities if the right has been exercised in accordance with its terms and shares are issued or transferred and registered in respect of the right on or before the record date for determining entitlements to the issue.

Participants will also be entitled to receive an allocation of additional shares as an adjustment for bonus issues.

6.6. General Employee Share Plan

The General Employee Share Plan (GES Plan) is part of the Company's overall remuneration policy to reward Baby Bunting employees, from time to time. By providing share ownership to employees, Baby Bunting is committed to creating a high performance culture and aligning employees to the creation of long term value for the Company.

The GES Plan provides for grants of shares to eligible employees of the Company up to a value determined by the Board. At the end of the financial year, around 44% of the Company's employees were shareholders of the Company, the vast majority of whom acquired their shares because of the GES Plan. This is a slight decline from the level of around 50% last year, primarily due to an increase in the number of employees who commenced employment in FY2023 and who are yet to participate in a offer under the GES Plan.

During the financial year, the Company made its eighth offer under this plan and issued 277,182 shares to 783 eligible employees who each received approximately $1,000 worth of Baby Bunting shares for no monetary consideration.

Eligible employees are generally those full-time or part-time employees (or long term casual employees) who have been employed for approximately 12 months before the date of the offer. Directors, including the Chief Executive Officer, are not eligible to participate in this plan.

To illustrate the benefits provided to participating team members under the GES Plan, an employee who has participated in each of the eight share offers under the GES Plan (since 2015) has received 2,913 Baby Bunting shares, with cumulative dividends paid on those shares equal to $1,405.86.

Details of the eight employee share plan offers are below:

	Value of shares offered	Number of shares provided
First employee gift offer (October 2015)	$1,000	714
Second employee gift offer (September 2016)	$1,000	334
Third employee gift offer (October 2017)	$1,000	546
Fourth employee gift offer (October 2018)	$750	297
Fifth employee gift offer (October 2019)	$1,000	284
Sixth employee gift offer (October 2020)	$1,000	207
Seventh employee gift offer (October 2021)	$1,000	177
Eighth employee gift offer (November 2022)	$1,000	354

Shares acquired under the GES Plan are subject to disposal restrictions having regard to applicable Australian tax legislation (currently, shares granted cannot be dealt with by a participant until the earlier of three years after the date of grant or the day after the day the participant ceases to be an employee).

7. Non-executive Directors

Remuneration Policy

Under the Company's Constitution, Non-executive Directors' remuneration for their services as a Director must not exceed in aggregate in any financial year $1,000,000 (being the amount specified in the Constitution) or any other amount fixed by the Company in general meeting. Currently, the aggregate fee cap is $1,000,000 (inclusive of superannuation contributions).

Non-executive Directors' remuneration must not include a commission on, or a percentage of, operating revenue. Non-executive Directors are not entitled to participate in any of the Company's employee incentive plans. Non-executive Directors may be reimbursed for travel and other reasonable expenses incurred on the business of the Company or in carrying out duties as a director. A director may be paid additional or special remuneration where a director performs extra services or makes special exertions.

Non-executive Directors' fees

Similar to executive remuneration, the Committee undertakes reviews of Non-executive Director remuneration from time to time. A review was last undertaken by the Committee in February 2022 with fees adjusted with effect on 1 February 2022. Prior to that, the last fee adjustment occurred on 1 January 2019.

The per annum fees (inclusive of superannuation contributions provided by the Company) are set out below:

	Fees $ per annum
Chair	200,000
Non-executive Director	100,000
Chair of a Board Committee	15,000
Member of a Board Committee	0

Recognising the expectation that Directors serve on Board Committees, no additional fees are provided for serving on one of the established Board Committees.

For the financial year ended 2 July 2023, the fees paid and superannuation contributions to all Non-executive Directors were approximately $743,000 in aggregate.

8. Details of remuneration for Non-executive Directors and Disclosed Executives

Details of the remuneration of the Non-executive Directors and other key management personnel of the Company are set out in the following table.

		Short term employee benefits			Post-employment benefits	Long term benefits	Termination benefits[2]	Share-based payment[3]		
	Year	Salary & fees[1] $	STI and other fees $	Non-monetary benefits $	Super-annuation $	Long service leave $	$	LTI Plan rights[4] $	Total[5] $	Performance related %
Non-executive Directors										
Melanie Wilson	2023	184,476	–	–	19,213	–	–	–	203,689	–
	2022	140,801	–	–	14,080	–	–	–	154,881	–
Gary Levin	2023	106,074	–	–	11,048	–	–	–	117,122	–
	2022	93,637	–	–	9,364	–	–	–	103,001	–
Donna Player	2023	92,239	–	–	9,607	–	–	–	101,846	–
	2022	84,091	–	–	8,409	–	–	–	92,500	–
Gary Kent	2023	106,074	–	–	11,048	–	–	–	117,122	–
	2022	93,531	–	–	9,353	–	–	–	102,884	–
Francine Ereira	2023	92,239	–	–	9,607	–	–	–	101,846	–
	2022	68,846	–	–	6,885	–	–	–	75,731	–
Stephen Roche	2023	92,239	–	–	9,607	–	–	–	101,846	–
	2022	68,846	–	–	6,885	–	–	–	75,731	–
Disclosed executives										
Matt Spencer (ceased 2 June 2023)	2023	644,754	–	10,927	26,643	18,915	467,571	91,597	1,260,407	7.3%
	2022	584,225	–	7,869	23,568	22,553	–	1,288,982	1,927,197	66.9%
Darin Hoekman	2023	467,111	–	7,789	26,561	40,408	–	(40,647)	501,222	0.0%
	2022	409,858	–	7,500	23,568	14,278	–	967,812	1,423,016	68.0%
TOTAL	**2023**	**1,785,206**	**–**	**18,716**	**123,334**	**59,323**	**467,571**	**50,950**	**2,505,100**	
	2022	**1,579,709**	**–**	**15,369**	**105,699**	**36,831**	**–**	**2,256,794**	**3,994,402**	

1. Amount includes the value of annual leave accrued during the financial year and salary sacrifice arrangements.
2. The termination benefits reflect an accrual for amounts that Matt Spencer will receive in respect of cessation of his employment, which is expected to occur on 31 December 2023. Matt Spencer ceased as a director of the Company on 2 June 2023, but remains an employee.
3. The value of Share-based payments has been calculated in accordance with applicable accounting standards.
4. The value of the LTI plan rights included as remuneration in the table is an accounting value and represents the aggregate of amounts determined for both market based and non-market based performance hurdles.
5. As the financial period was 53 weeks, the total remuneration for Non-executive Directors shown slightly exceeds the per annum amounts set out in Section 7.

9. Equity instruments held by key management personnel

The tables below show the number of shares, performance rights and options in the Company that were held during the financial year by key management personnel, including close members of their family and entities related to them. No amounts remain unpaid in respect of the ordinary shares at the end of the financial year.

Ordinary shares

Shares held by key management personnel, including close members of their family and entities related to them.

	Balance at start of the year	Change	Balance at the end of the year
Non-executive Directors			
Melanie Wilson	30,000	–	30,000
Gary Levin	150,000	70,000	220,000
Donna Player	36,000	–	36,000
Gary Kent	24,000	8,000	32,000
Fran Ereira	4,110	21,421	25,531
Stephen Roche	35,000	–	35,000

Disclosed executives	Balance at start of the year	Received upon vesting of performance rights[1]	Sale of shares	Balance at end of the year
Matt Spencer	1,227,589	500,753	(225,000)	1,503,342
Darin Hoekman	400,788	351,842	(200,000)	552,630

Note:

1. Under the terms of the FY19-22 rights, half of the shares provided upon vesting remain subject to a 12-month disposal restriction. For Matt Spencer, 250,376 shares remain restricted until 6 December 2023. For Darin Hoekman, 175,921 shares remain restricted until 6 December 2023.

Performance rights granted to disclosed executives

Disclosed executives	Balance at start of the year	Number of rights granted as compensation during the year	Fair value per right at grant date	Value of rights granted during the year	Number of rights exercised during the year	Value of the rights exercised during the year	Number of rights lapsed during the year	Number of rights held at end of year (all unvested)
Matt Spencer								
FY2019 to FY2022 rights	533,000	–	–	–	500,753	$1,400,197	(32,247)	–
FY2020 to FY2023 rights	480,000	–	–	–	–	–	–	480,000
FY2021 to FY2024 rights	185,000	–	–	–	–	–	–	185,000
FY2022 to FY2025 rights[1]	–	180,000	$1.29	$232,920	–	–	–	180,000
Darin Hoekman								
FY2019 to FY2022 rights	374,500	–	–	–	351,842	$983,815	(22,658)	–
FY2019 to FY2022 rights	350,000	–	–	–	–	–	–	350,000
FY2020 to FY2023 rights	175,000	–	–	–	–	–	–	175,000
FY2021 to FY2024 rights[1]	–	175,000	$1.29	$226,450	–	–	–	175,000

Note:

1. In respect of the FY2022 to FY2025 rights, Matt Spencer was granted performance rights pursuant to shareholder approval granted at the 2022 AGM on 11 October 2022. During the year, Darin Hoekman was granted the rights detailed above on 8 December 2022.

Details of the performance conditions and performance periods for those rights are set out in Section 6.4 (Long term incentive plan) above.

Options

There are no options over shares on issue as at the date of this Directors' Report.

10. Employment contracts

Each executive has an employment contract specifying, among other things, remuneration arrangements, benefits, notice periods and other terms and conditions. The contracts provide that participation in the STI and LTI arrangements are at the Board's discretion.

The employment contracts do not have a fixed term. Employment may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances including serious or wilful misconduct.

Disclosed executives	Termination by notice	Termination – notice by Company or payment in lieu
Matt Spencer	12 months	12 months
Darin Hoekman	6 months	6 months
Future CEO		
Mark Teperson	6 months	6 months

The employment contracts with disclosed executives contain a 12-month post-employment restraint.

On 23 May 2023, the Company announced that Mark Teperson has been appointed as Chief Executive Officer with effect from 2 October 2023. In addition to the details in Section 4.1, his employment contract also provides that if the Company makes a payment to Mark arising out of the cessation of employment and he is subsequently found to have engaged in serious misconduct, clawback will apply to those payments. This applies for two years after employment ends.

11. Other KMP disclosures

Other than as disclosed in this Remuneration Report, no member of the Company's key management personnel (or their respective close family members or an entity over which they have control or significant influence) has entered into any transaction with the Company or a subsidiary during the reporting period, other than transactions that occur within a normal employee, customer or supplier relationship, on arms-length terms and that are trivial or domestic in nature.

There are no loans to key management personnel.

This is the end of the Remuneration Report.

Auditor's independence declaration

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Building a better working world

Auditor's Independence Declaration to the Directors of Baby Bunting Group Limited

As lead auditor for the audit of Baby Bunting Group Limited for the 53-week period ended 2 July 2023, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit;

(b) no contraventions of any applicable code of professional conduct in relation to the audit; and

(c) No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Baby Bunting Group Limited and the entities it controlled during the financial year.

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner
11 August 2023

Financial report
for the year ended 2 July 2023

Contents

70 Consolidated Statement of Profit or Loss and Other Comprehensive Income
71 Consolidated Statement of Financial Position
72 Consolidated Statement of Changes in Equity
73 Consolidated Statement of Cash Flows
- 74 Note 1: Reporting entity
- 74 Note 2: Summary of significant accounting policies
- 85 Note 3: Revenue from contracts with customers
- 86 Note 4: Profit for the period
- 87 Note 5: Income tax
- 88 Note 6: Other receivables
- 88 Note 7: Inventory
- 88 Note 8: Other assets
- 89 Note 9: Plant and equipment
- 90 Note 10: Intangible assets and goodwill
- 91 Note 11: Leases
- 93 Note 12: Deferred tax assets
- 94 Note 13: Trade and other payables
- 94 Note 14: Other liabilities
- 95 Note 15: Loans and borrowings
- 95 Note 16: Provisions
- 96 Note 17: Issued capital
- 96 Note 18: Dividends
- 97 Note 19: Retained earnings
- 97 Note 20: Segment information
- 98 Note 21: Reserves
- 100 Note 22: Related party transactions
- 101 Note 23: Commitments for expenditure
- 101 Note 24: Financial instruments – Fair values and risk management
- 106 Note 25: Notes to the statement of cash flows
- 107 Note 26: Parent entity disclosures
- 108 Note 27: Group entities
- 111 Note 28: Earnings per share
- 112 Note 29: Remuneration of auditors
- 112 Note 30: Events after balance sheet date

113 Directors' declaration
114 Independent auditor's report

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the 53 weeks ended 2 July 2023

	Note	2023 $'000	2022 $'000
Revenue	3	524,281	507,274
Cost of sales		(328,087)	(311,512)
Gross profit		**196,194**	**195,762**
Store expenses	4	(110,216)	(97,397)
Marketing expenses		(8,312)	(8,226)
Warehousing expenses	4	(11,372)	(9,529)
Administrative expenses	4	(37,584)	(40,653)
Transformation project expenses	4	(4,745)	(4,668)
Finance expenses	4	(8,733)	(6,987)
Profit before tax		**15,232**	**28,302**
Income tax expense	5	(5,378)	(8,781)
Profit after tax		**9,854**	**19,521**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(13)	24
Net (loss)/gain on cash flow hedges	24	(101)	407
Income tax effect relating to the components of OCI	12	(55)	(122)
Net other comprehensive (loss)/gain that may be reclassified to profit or loss in subsequent periods		**(169)**	**309**
Net other comprehensive (loss)/gain for the period, net of tax		**(169)**	**309**
Total comprehensive income for the period, net of tax		**9,685**	**19,830**
Profit for the period attributable to:			
Equity holders of Baby Bunting Group Limited		9,854	19,521
Total comprehensive income attributable to:			
Equity holders of Baby Bunting Group Limited		9,685	19,830
Earnings per share			
From continuing operations			
Basic (cents per share)	28(a)	7.4	14.9
Diluted (cents per share)	28(b)	7.1	14.3

Notes to the consolidated financial statements are included in pages 74 to 112.

For personal use only

Consolidated Statement of Financial Position

as at 2 July 2023

	Note	2023 $'000	2022 $'000
Current Assets			
Cash and cash equivalents	25(b)	4,997	12,238
Other receivables	6	3,451	5,303
Inventories	7	98,046	96,667
Current tax assets		96	–
Other financial assets	24	185	407
Other assets	8	4,183	5,138
Total Current Assets		**110,958**	**119,753**
Non-Current Assets			
Plant and equipment	9	29,453	30,316
Intangibles	10	6,863	5,304
Goodwill	10	45,321	45,321
Right-of-use asset	11	143,916	139,838
Deferred tax assets	12	7,377	10,137
Total Non-Current Assets		**232,930**	**230,916**
Total Assets		**343,888**	**350,669**
Current Liabilities			
Trade and other payables	13	45,371	52,555
Other liabilities	14	6,156	5,785
Current tax liabilities		–	585
Lease liability	11	34,057	29,550
Provisions	16	6,795	6,537
Total Current Liabilities		**92,379**	**95,012**
Non-Current Liabilities			
Loans and borrowings	15	11,209	12,946
Lease liability	11	130,296	126,682
Provisions	16	2,070	1,308
Total Non-Current Liabilities		**143,575**	**140,936**
Total Liabilities		**235,954**	**235,948**
Net Assets		**107,934**	**114,721**
Equity			
Issued capital	17	88,695	87,913
Reserves	21	15,673	17,378
Retained earnings	19	3,566	9,430
Total Equity		**107,934**	**114,721**

Notes to the consolidated financial statements are included in pages 74 to 112.

Consolidated Statement of Changes in Equity

for the 53 weeks ended 2 July 2023

	Issued Capital $'000	Share-based Payments Reserve $'000	Share-based Payment Tax Reserve $'000	Cash Flow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 27 June 2021	**87,153**	**8,954**	**4,195**	**–**	**–**	**5,772**	**106,074**
Profit for the period	–	–	–	–	–	19,521	19,521
Other comprehensive income	–	–	–	285	24	–	309
Total comprehensive income for the period	–	–	–	285	24	19,521	19,830
Issue of shares (Note 17)	760	–	–	–	–	–	760
Dividends (Note 18)	–	–	–	–	–	(19,512)	(19,512)
Share-based payment expense (Note 21)	–	6,828	–	–	–	–	6,828
Tax effect of share-based payments (Note 21)	–	–	741	–	–	–	741
Transfer to retained earnings (Note 21)	–	–	(3,649)	–	–	3,649	–
Balance at 26 June 2022	**87,913**	**15,782**	**1,287**	**285**	**24**	**9,430**	**114,721**
Balance at 26 June 2022	**87,913**	**15,782**	**1,287**	**285**	**24**	**9,430**	**114,721**
Profit for the period	–	–	–	–	–	9,854	9,854
Other comprehensive income	–	–	–	(156)	(13)	–	(169)
Total comprehensive income for the period	–	–	–	(156)	(13)	9,854	9,685
Issue of shares (Note 17)	782	–	–	–	–	–	782
Dividends (Note 18)	–	–	–	–	–	(15,563)	(15,563)
Share-based payment expense (Note 21)	–	(251)	–	–	–	–	(251)
Tax effect of share-based payments (Note 21)	–	–	(1,440)	–	–	–	(1,440)
Transfer to retained earnings (Note 21)	–	–	155	–	–	(155)	–
Balance at 2 July 2023	**88,695**	**15,531**	**2**	**129**	**11**	**3,566**	**107,934**

Notes to the consolidated financial statements are included in pages 74 to 112.

Consolidated Statement of Cash Flows

for the 53 weeks ended 2 July 2023

	Note	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers		577,249	560,740
Payments to suppliers and employees		(520,666)	(496,476)
Income tax paid		(4,668)	(4,884)
Finance costs paid		(8,910)	(7,015)
Net cash from operating activities	25(a)	**43,005**	**52,365**
Cash flows from investing activities			
Payments for plant and equipment	9	(5,755)	(8,746)
Payments for intangibles	10	(3,039)	(3,873)
Net cash used in investing activities		**(8,794)**	**(12,619)**
Cash flows from financing activities			
Dividends paid	18	(15,563)	(19,512)
Net (repayment)/borrowings		(1,738)	2,996
Payments of principal portion of lease liability		(24,151)	(21,876)
Net cash used in financing activities		**(41,452)**	**(38,392)**
Net (decrease)/increase in cash and cash equivalents		**(7,241)**	**1,354**
Cash and cash equivalents at beginning of the period		12,238	10,884
Cash and cash equivalents at end of the period	**25(b)**	**4,997**	**12,238**

Notes to the consolidated financial statements are included in pages 74 to 112.

Notes to the Consolidated Financial Statements
for the period ended 2 July 2023

Note 1: Reporting entity

Baby Bunting Group Limited (the Company) is a company domiciled in Australia. The address of the Company's registered office and its principal place of business is 153 National Drive, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the period ended 2 July 2023 comprise the Company and its subsidiaries (together referred to as the "consolidated entity"). The consolidated entity is primarily involved in the retailing of baby merchandise.

The Company was admitted to the official list of the Australian Securities Exchange (ASX) on 14 October 2015 under the ASX code 'BBN'.

The Company has adopted a 53 week retail calendar for financial reporting purposes which ended 2 July 2023. The prior period was a 52 week retail calendar which ended on 26 June 2022.

Note 2: Summary of significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

a. Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001*, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the consolidated entity. Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the consolidated entity comply with International Financial Reporting Standards (IFRS). For the purposes of preparing the Consolidated Financial Statements, the Company is a for-profit entity.

The financial statements were authorised for issue by the directors on 11 August 2023.

b. Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain financial assets and financial liabilities measured at fair value, as explained in the accounting policies below. All amounts are presented in Australian dollars, unless otherwise noted.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the consolidated entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

c. Critical accounting judgements and key sources of estimation uncertainty

In the application of the consolidated entity's accounting policies, the Company is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

Determination of inventory provision for shrinkage, obsolescence and mark-down

The Company's judgement is applied in determining the inventory provision for shrinkage, obsolescence and mark-down. Estimates of shrinkage trends based on historical observations have been applied against inventory held at period end and where the estimated selling price of inventory including the costs necessary to sell is lower than the cost to sell, the difference is recognised in the provision for obsolescence.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units (CGUs) to which goodwill has been allocated. The value in use calculation estimates the future cash flows expected to arise from the CGUs and a pre-tax discount rate in order to calculate present value. The key assumptions used in the value in use calculations are as follows:

Forecasted sales growth of existing stores	3.0% for comparable store growth over a 5 year period (2022: 3.0%)
Terminal sales growth rate	3.0% (2022: 3.0%)
Forecasted gross margin	Average gross margin achieved in the period immediately before the forecast period
Forecasted retail store expenses	Forecast increases correlate to the consumer price index. The values assigned to the key assumption are consistent with external sources of information
Pre-tax weighted average cost of capital	14.07% (2022: 13.78%)

The pre-tax weighted average cost of capital (WACC) calculated for the current period includes consideration of lease liabilities as part of the capital structure when determining debt / equity assumptions in the WACC.

Goodwill is allocated to the Australian operating segment, as a group of cash generating units (CGUs) for the purpose of impairment testing.

The recoverable amount of the consolidated entity's CGU to which goodwill is allocated currently exceeds its carrying value. Reasonably possible changes that may occur to the assumptions used would not result in impairment.

Lease term of contracts with renewal options and incremental borrowing rate for leases

Refer to Note 2(y) for significant judgements required for lease term of contracts with renewal options and determining the incremental borrowing rate for leases.

Revenue recognition – loyalty programme

Refer to Note 2(m) for significant judgements required for assessment of breakage.

d. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the consolidated entity's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the consolidated entity are eliminated in full on consolidation.

e. Fair value measurement

The Company measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefit by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statement are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosure, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

f. Business combinations

Business combinations are accounted for using the purchase acquisition method. The consideration of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the consolidated entity in exchange for control of the business acquired. Acquisition related costs are recognised in the statement of profit or loss and other comprehensive income as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the consideration of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the consolidated entity's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the consideration of the business combination, the excess is recognised immediately in the statement of profit or loss and other comprehensive income.

g. Income tax

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian taxation law, of which the Company is the head entity. As a result, the Company is subject to income tax through its membership of the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group (if any) are recognised by the Company (as head entity in the tax-consolidated group).

Nature of tax funding arrangements and tax sharing agreements

Entities within the Australian tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, the Company and the other entities in the tax-consolidated group have agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit before tax as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The consolidated entity's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Deferred tax is recognised on share-based payments for the tax deduction that will be available to the Company on vesting of the LTI share-based payments. The deferred tax measurement is based on the share price at reporting date. The income tax benefit is recognised through income tax expense up to the amount relating to the cumulative share-based payment expense. Any tax benefit in excess of the amount relating to the cumulative share-based payment expense is recognised in the share-based payment tax reserve within equity. Refer to Note 21.

h. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory being valued on a weighted average cost formula basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale. Volume rebates are recognised as a reduction in the cost of inventory and are recorded as a reduction in the cost of goods sold when the inventory is sold. Supplier promotional and marketing rebates that arise upon sale of inventory have been brought to account as a direct deduction in costs of goods sold.

i. Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. The depreciable amount of all fixed assets are depreciated over their estimated useful lives. The estimated useful lives and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis. The useful life for each class of asset is:

Class of fixed asset	Useful Life
Plant and equipment	3 - 10 years
Leasehold improvements	5 - 10 years

j. Intangibles – computer software

Intangible assets with finite lives that are acquired separately or internally generated are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Class of intangible asset	Useful Life
Computer software	5 years

k. Employee benefits

Short-term employee benefits liabilities recognised for salaries and wages, annual leave and any other short term employee benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are measured at the amounts expected to be paid when the liabilities are settled in respect of services provided by employees up to the reporting date.

Long-term employee benefits liabilities recognised in respect of long service leave and any other long term employee benefits that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date. Consideration is given to expected future salary levels, historical employee turnover rates and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

l. Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All receivables from EFT, credit card and debit card point of sale transactions during the period are classified as cash and cash equivalents.

m. Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. This is generally in store when the customer purchases the goods or services, on delivery to the customer for online sales and on customer pickup for click and collect.

For layby, revenue is recognised when customers make the final payment and goods have been collected. The initial layby deposit paid and subsequent instalment payments are recorded as unearned income in the balance sheet and included in sundry payables. A contractual liability is recognised of $4.899 million (2022: $6.194 million), of which 80% is refundable when the customer cancels the layby.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method (historical return rates provide a basis for the expected value) to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in AASB 15 Revenue from Contracts with Customers on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer and recorded at cost value. The Company's change of mind policy is 30 days.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

The Company operates a loyalty program. Customers receive a loyalty voucher upon joining the Company's loyalty program. In addition, under the loyalty program, the Company offers loyalty vouchers when a customer's cumulative spend reaches a specified amount. The loyalty vouchers can be redeemed in store or online for future purchases. The Company extended its loyalty voucher redemption period from 30 days to 60 days in December 2022. This resulted in an increase in the unredeemed vouchers liability.

The Company estimates the fair value of the un-issued loyalty vouchers based on the cumulative spend balance relative to the specified amount. The Company estimates the "breakage" rate based on redemption history of expired loyalty vouchers. The Company records the contract liability based on the breakage rate for unspent and unexpired vouchers and un-issued vouchers. Refer to Note 14.

n. Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

o. Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the consolidated entity's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition.

Goodwill is subsequently measured at its cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the consolidated entity's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or groups of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in the statement of profit or loss and other comprehensive income and is not reversed in a subsequent period.

p. Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

Financial assets are classified as follows depending on the nature and purpose of the financial assets and are determined at the time of initial recognition. The most applicable category for the Company is amortised cost and fair value through OCI.

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets at amortised cost are subsequently measured using the effective interest rate method (EIR) and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables and cash and cash equivalents.

q. Derivative financial instruments and hedge accounting

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Initial recognition and subsequent measurement

The Company uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment;
- Hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument;
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Company uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions. The ineffective portion relating to foreign currency contracts is recognised as other expense.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

r. Trade payables

Trade payables and other accounts payable are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

s. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

Provisions for the expected cost of warranty obligations under applicable consumer law are recognised at the date of sale of the relevant products, at the best estimate of the expenditure required to settle the Company's obligation.

t. Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

u. Borrowing costs

Borrowing costs are recognised as expenses using the effective interest rate method as described below.

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings using the EIR method.

v. Share-based payment arrangements

Employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 21.

The cost is recognised as employee benefit expense, together with a corresponding increase in equity (share-based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 21(b).

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market condition, the transactions are treated as vested irrespective of whether the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 28).

w. Comparative amounts

The comparative figures are for the period 27 June 2021 to 26 June 2022. Where appropriate, comparative information has been reformatted to allow comparison with current year information.

x. Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash generating unit. For the purpose of impairment for non-financial assets other than goodwill, the Company bases its impairment calculation on most recent budgets and projection calculations, which are prepared separately for each of the Company's CGUs. Intangible assets not yet available for use are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

y. Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract coveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and lease of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right-of-use of the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Property — 5 to 12 years
- Motor vehicles and material handling equipment — 1 to 6 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (x) Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of material handling equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as an expense on a straight-line basis over the lease term.

Significant judgement is required in determining the lease term of contracts with renewal options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has the option, under some of its leases, to lease the assets for additional terms of mostly five year options. The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e. a change in business strategy).

Significant judgement in determining the incremental borrowing rate for each lease

The Company calculates the incremental borrowing rate for each lease determined using inputs including the Company's three-year multi option facility lending margin (adjusted for tenure) and the government bond rate applicable at the time of entering into the lease if the interest rate implicit in the lease is not readily determinable.

z. Capital management

For the purpose of the Company's capital management, capital includes issued capital, borrowings and all other equity reserve attributable to the equity holder of the parent. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and make adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company has a dividend payout ratio policy to pay out approximately 70% of full year pro forma NPAT.

aa. Changes in accounting policies and disclosures

The following new and amended Australian Accounting Standards and AASB interpretations apply for the first time during the period ended 2 July 2023. The impact of these new standards and amendments were not material to the consolidated financial statements of the Company.

Reference	Title	Application
AASB 2020-3	Amendments to AASs – Annual Improvements 2018-2020 and Other Amendments	1 January 2022

Other Australian accounting standards and interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the reporting period ended 2 July 2023.

Note 3: Revenue from contracts with customers

	2023 $'000	2022 $'000
An analysis of the consolidated entity's revenue for the period, is as follows:		
Revenue from contracts with customers[1]	524,281	507,274

1. Revenue from contracts with customers includes online revenue (including click & collect) $102.471 million (2022: $112.681 million) and from New Zealand store operations $2.920 million (2022: nil).

Note 4: Profit for the period

	2023 $'000	2022 $'000
Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable		
Interest on lease liabilities	7,023	6,102
Interest on borrowings	1,710	885
Depreciation and amortisation	7,910	6,168
Depreciation on right-of-use assets	28,559	25,595
Employee benefits expense	94,683	91,673

Depreciation and amortisation

Depreciation and amortisation are disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Store expenses", "Warehousing expenses", "Administrative expenses" and "Transformation project expenses" as detailed below:

For the period ended 2 July 2023	As reported $'000	Depreciation and amortisation on PPE and Intangibles $'000	Depreciation on Right-of-use Asset $'000	Excluding Depreciation and Amortisation $'000
Store expenses	(110,216)	6,184	25,296	(78,736)
Warehousing expenses	(11,372)	214	3,079	(8,079)
Administrative expenses	(37,584)	1,512	184	(35,888)
Transformation project expenses	(4,745)	–	–	(4,745)
Total	**(163,917)**	**7,910**	**28,559**	**(127,448)**

For the period ended 26 June 2022	As reported $'000	Depreciation and amortisation on PPE and Intangibles $'000	Depreciation on Right-of-use Asset $'000	Excluding Depreciation and Amortisation $'000
Store expenses	(97,397)	4,950	23,022	(69,425)
Warehousing expenses	(9,529)	171	2,396	(6,962)
Administrative expenses	(40,653)	1,047	167	(39,439)
Transformation project expenses	(4,668)	–	10	(4,658)
Total	**(152,247)**	**6,168**	**25,595**	**(120,484)**

For personal use only

Transformation project expenses include the following:

	2023 $'000	2022 $'000
Transformation project expenses[1,2]	4,745	4,668

1. The Company is undertaking a process of assessment and when necessary, replacement of its core information technology systems. During the period, the Company incurred ($4.745 million) non-capital costs associated with the implementation of a time and attendance system and the initial planning phase of a replacement of its enterprise resource planning (ERP) and point-of-sale systems. Other transformation project expenses include external consultant costs associated with project management costs to deliver the transformation projects.
2. In 2022, the Company undertook a process of assessment and when necessary, replacement of its core information technology systems. The Company incurred ($3.242 million) non-capital costs associated with the implementation of a Loyalty system, People systems and digital technology assets. Other transformation project expenses ($1.426 million) include external consultant costs associated with project management to deliver the transformation projects. The non-capital cost of external consultants associated with running the selection and planning for the integration of the new systems are not related to the day-to-day operations or financial performance of the business. These project costs cease at project completion

Note 5: Income tax

	2023 $'000	2022 $'000
Current tax in respect of the current period	6,593	9,499
Current tax in respect of the prior period	251	–
Deferred tax	(1,466)	(718)
Total tax expense	**5,378**	**8,781**

The income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2023 $'000	2022 $'000
Profit before tax from continuing operations	15,232	28,302
Income tax expense calculated at 30% (2022: 30%)	(4,570)	(8,491)
Non-deductible expenditure	(55)	(36)
Over/under from prior year	251	–
Share-based payments	(1,077)	(254)
Effect of lower tax rates in New Zealand	73	–
Income tax expense recognised in profit or loss	**(5,378)**	**(8,781)**

The tax rate used for financial year 2023 and 2022 in the above reconciliation is the corporate tax rate of 30% payable by large Australian corporate entities on taxable profits under Australian tax law. The tax rate used for financial year 2023 for New Zealand is the corporate tax rate of 28% payable by New Zealand corporate entities on taxable profits under New Zealand tax law.

Note 6: Other receivables

	2023 $'000	2022 $'000
Current		
Trade receivables	229	177
Other receivables	3,222	5,126
	3,451	**5,303**

There are no material receivables past due date. The receivables are expected to be settled within 30-90 days, subject to the terms of the relevant agreement.

Note 7: Inventory

	2023 $'000	2022 $'000
Finished goods	98,792	97,461
Less: Provision for shrinkage, obsolescence and mark-down	(746)	(794)
Total	**98,046**	**96,667**

The cost of inventories recognised as an expense during the current reporting period in respect of continuing operations was $328.087 million (2022: $311.512 million). During the financial year, there was a reduction of provision for shrinkage, obsolescence and mark-down of $0.048 million (2022: a decrease of $0.180 million in provision) due to improved stock management.

Note 8: Other assets

	2023 $'000	2022 $'000
Prepayments	3,011	3,686
Right of return	1,172	1,452
Total	**4,183**	**5,138**

Note 9: Plant and equipment

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 26 June 2022	9,494	56,289	65,783
Additions	3,695	2,060	5,755
Disposals	(1,158)	(663)	(1,821)
Balance at 2 July 2023	**12,031**	**57,686**	**69,717**
Accumulated depreciation			
Balance at 26 June 2022	(4,849)	(30,618)	(35,467)
Transfer[1]	–	–	–
Depreciation	(1,808)	(4,622)	(6,430)
Disposals	1,133	500	1,633
Balance at 2 July 2023	**(5,524)**	**(34,740)**	**(40,264)**
Carrying amount as at 2 July 2023	**6,507**	**22,946**	**29,453**

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 27 June 2021	6,386	50,916	57,302
Transfer[1]	364	(364)	–
Additions	2,754	5,992	8,746
Disposals	(10)	(255)	(265)
Balance at 26 June 2022	**9,494**	**56,289**	**65,783**
Accumulated depreciation			
Balance at 27 June 2021	(4,202)	(25,871)	(30,073)
Transfer[1]	(7)	7	–
Depreciation	(650)	(5,009)	(5,659)
Disposals	10	255	265
Balance at 26 June 2022	**(4,849)**	**(30,618)**	**(35,467)**
Carrying amount as at 26 June 2022	**4,645**	**25,671**	**30,316**

1. Transfer of assets from Plant and equipment to Leasehold improvements.

Note 10: Intangible assets and goodwill

Cost	Goodwill $'000	Intangibles $'000
Balance at 26 June 2022	**45,321**	**7,678**
Transfers	–	–
Additions	–	3,039
Disposals	–	–
Balance at 2 July 2023	**45,321**	**10,717**
Amortisation and impairment losses		
Balance at 26 June 2022	–	(2,374)
Amortisation	–	(1,480)
Disposals	–	–
Balance at 2 July 2023	**45,321**	**(3,854)**
Carrying amount as at 2 July 2023	**45,321**	**6,863**

Cost	Goodwill $'000	Intangibles $'000
Balance at 27 June 2021	**45,321**	**3,805**
Additions	–	3,873
Disposals	–	–
Balance at 26 June 2022	**45,321**	**7,678**
Amortisation and impairment losses		
Balance at 27 June 2021	–	(1,865)
Amortisation	–	(509)
	–	–
Balance at 26 June 2022	**–**	**(2,374)**
Carrying amount as at 26 June 2022	**45,321**	**5,304**

Refer to Note 2(c) for detail on the inputs used in the impairment calculation of goodwill.

Note 11: Leases

The Company has lease contracts for various items of property, motor vehicles and material handling equipment used in its operations. Leases of buildings generally have lease terms between 5 and 12 years, while motor vehicles and material handling equipment generally have lease terms between 1 and 6 years. The Company's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company is restricted from assigning and subleasing the leased assets.

There are several lease contracts that include extension options and variable lease payments. Relevant factors the Company considers in determining the likelihood to exercise a lease renewal, to the point of reasonable certainty, include the Company's overall property strategy, the importance of the leased asset to the Company, the existence of renewal options and their pricing, whether the market is a new market or an existing market, the costs of returning the leased asset in a contractually specified condition, the existence of alternate sites within the relevant catchment and the associated costs of a relocation, and any broader trends generally shaping the retail industry. The Company's lease portfolio contains option periods averaging around 5 years that are not considered reasonably certain options to be exercised. However, these options provide the Company flexibility in managing the leased asset portfolio. The present value of the lease payments to be made under options considered reasonably certain to be exercised has been included in the lease liability balance as at 2 July 2023.

The Company has several lease contracts that include extension options. These options are negotiated to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised is $279.050 million (2022: $273.356 million), which includes potential lease payments within the next five years of $22.334 million (2022: $24.320 million) should those options be exercised.

The Company has several lease commitments entered into but not yet commenced and recognised as a right-of-use asset and lease liability. The undiscounted future payments at current rental rates is $31.963 million (2022: $23.757 million).

The Company also has certain leases of material handling equipment with lease terms of 12 months or less and leases of office equipment that are low in value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below, are the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use asset			
	Property $'000	Motor Vehicles $'000	Material Handling equipment $'000	Total $'000
As at 27 June 2021	**109,546**	**231**	**2,281**	**112,058**
Additions	21,298	260	1,410	22,968
Remeasurements[1]	30,407	–	–	30,407
Depreciation expense	(24,682)	(154)	(759)	(25,595)
As at 26 June 2022	**136,569**	**337**	**2,932**	**139,838**
Additions	17,850	134	493	18,477
Remeasurements[1]	13,926	–	234	14,160
Depreciation expense	(27,357)	(190)	(886)	(28,433)
Impairment	(126)	–	–	(126)
As at 2 July 2023	**140,862**	**281**	**2,773**	**143,916**

1. Remeasurements of right-of-use asset primarily represents lease extensions of stores.

Lease Liabilities	2023 $'000	2022 $'000
Opening balance	**156,232**	**125,289**
Additions	18,477	22,968
Accretion of interest	7,023	6,102
Remeasurements[1]	13,795	29,851
Payments	(31,174)	(27,978)
Closing balance	**164,353**	**156,232**
Current	34,057	29,550
Non-current	130,296	126,682
Total lease liabilities	**164,353**	**156,232**

1. Remeasurements of lease liabilities primarily represents lease extensions of stores.

The maturity analysis of lease liabilities is disclosed in Note 24 Financial Instruments.

The following are the amounts recognised in profit and loss:

	2023 $'000	2022 $'000
Depreciation expense of right-of-use asset	28,559	25,595
Interest expense on lease liabilities	7,023	6,102
Rent expenses – short-term leases (included in stores, administration and warehouse)	96	104
Rent expenses – leases of low-value assets (included in stores, administration and warehouse)	596	656
Rent expenses – variable lease payments (included in stores, administration and warehouse)	3,553	3,002
Total	**39,827**	**35,459**

The Company had total cash outflows for leases of $35.419 million in 2023 ($31.740 million in 2022). The Company also had additions to right-of-use assets and lease liabilities of $18.477 million in 2023 ($22.968 million in 2022).

Note 12: Deferred tax assets

Deferred tax balances are presented in the consolidated statement of financial position as follows:

	2023 $'000	2022 $'000
Deferred tax assets		
Australia	6,354	10,137
New Zealand	1,023	–
Total	**7,377**	**10,137**

2023 – Consolidated $'000	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	Closing balance
Employee benefits	**2,182**	141	–	–	**2,323**
Non-deductible accruals	**188**	73	–	–	**261**
Non-refundable layby income	**995**	(118)	–	–	**877**
Inventories	**423**	(49)	–	–	**374**
Gift vouchers	**1,041**	234	–	–	**1,275**
Right of return	**240**	(61)	–	–	**179**
Right-of-use asset	**(40,257)**	(2,828)	–	–	**(43,085)**
Lease liability	**45,170**	4,037	–	–	**49,207**
Property, plant and equipment	**(4,066)**	(919)	–	–	**(4,985)**
Share-based payments	**4,293**	(3,007)	–	(1,286)	**–**
Deductible accruals	**–**	119	–	–	**119**
Cash flow hedge reserve	**(122)**	–	67	–	**(55)**
Unrealised FX gain/(loss)	**50**	(50)	–	–	**–**
Tax losses carried forward (NZ)	**–**	887	–	–	**887**
Total	**10,137**	**(1,541)**	**67**	**(1,286)**	**7,377**

2022 – Consolidated $'000	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in equity	Closing balance
Employee benefits	**1,950**	232	–	–	**2,182**
Non-deductible accruals	**165**	23	–	–	**188**
Non-refundable layby income	**963**	32	–	–	**995**
Inventories	**222**	201	–	–	**423**
Gift vouchers	**620**	421	–	–	**1,041**
Right of return	**123**	117	–	–	**240**
Right-of-use asset	**(33,617)**	(6,640)	–	–	**(40,257)**
Lease liability	**37,588**	7,582	–	–	**45,170**
Property, plant and equipment	**(2,766)**	(1,300)	–	–	**(4,066)**
Share-based payments	**6,444**	757	–	(2,908)	**4,293**
Cash flow hedge reserve	**–**	–	(122)	–	**(122)**
Unrealised FX gain/(loss)	**–**	50	–	–	**50**
Total	**11,692**	**1,475**	**(122)**	**(2,908)**	**10,137**

Note 13: Trade and other payables

	2023 $'000	2022 $'000
Current		
Trade payables	29,713	35,019
Sundry payables	15,658	17,536
Total	**45,371**	**52,555**

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms.
- Sundry payable includes $4.899 million (2022: $6.194 million) of deposit and instalment payments received by the Company in relation to layby sales taken out by customers.
- Sundry payables (other than layby sales) are non-interest bearing and have an average term of three months.
- For explanations on the Company's liquidity risk management processes, refer to Note 24(b).

Note 14: Other liabilities

	2023 $'000	2022 $'000
Unredeemed gift cards and vouchers[1]	4,255	3,472
Refund liability	1,782	2,250
Security deposits – car seat hire	119	63
Total	**6,156**	**5,785**

1. The unredeemed gift cards are expected to be redeemed within three years. Loyalty vouchers have a redemption period of 60 days.

Note 15: Loans and borrowings

	2023 $'000	2022 $'000
Non-current – Secured		
Bank loan[1]	11,209	12,946

1. Bank loan is net of the loan establishment costs.

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ("NAB"). On 30 March 2022, the Company entered into an amendment deed with NAB and the multi-option facility matures on 31 March 2025. Security consists of a Deed of Charge over the assets of Baby Bunting Pty Ltd. The Company and Baby Bunting NZ Limited are guarantors to the facility.

The total facility limit at balance date was $78,000,000, consisting of $70,000,000 Corporate Market Loan ("CML") facility and $8,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of $70,000,000 or 2.5 times the last 12 months historical rolling EBITDA. Interest on the facility is charged at a variable rate.

The consolidated entity was in compliance with the facility agreement at 2 July 2023. The current facility does not require the consolidated entity to amortise borrowings.

Note 16: Provisions

	2023 $'000	2022 $'000
Current		
Employee benefits	6,495	6,537
Make-good provision[1]	300	–
Total current	**6,795**	**6,537**
Non-current		
Employee benefits	1,251	745
Make-good provision[1]	819	563
Total non-current	**2,070**	**1,308**

Make-good provision	2023 $'000	2022 $'000
Opening balance	563	–
Arising during the period[1]	556	563
Closing balance	**1,119**	**563**

1. Provision for make-good costs relate to costs that arise in the event the Company was to vacate the premises at the end of the lease.

Note 17: Issued capital

	2 July 2023		26 June 2022	
Fully paid ordinary shares	**No. of shares**	**$'000**	**No. of shares**	**$'000**
Balance at beginning of the period	132,458,126	87,913	129,255,075	87,153
Issue of shares:				
- Employee Gift Offer	277,182	782	135,051	760
- LTI vesting	2,171,181	–	3,068,000	–
Balance at end of the period	**134,906,489**	**88,695**	**132,458,126**	**87,913**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Note 18: Dividends

	2023		2022	
Recognised amounts	**$ per ordinary share**	**$'000**	**$ per ordinary share**	**$'000**
Final 2022 dividend	0.090	11,921	0.083	10,772
Interim 2023 dividend	0.027	3,642	0.066	8,740

On 12 August 2022, the Directors determined to pay a fully franked final dividend of 9.0 cents per share to the holders of fully paid ordinary shares in respect of the financial period ended 26 June 2022. The dividend was subsequently paid to shareholders on 9 September 2022 totalling $11.921 million.

On 17 February 2023, the Directors determined to pay an interim fully franked dividend of 2.7 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 26 December 2022. The dividend was subsequently paid to shareholders on 17 March 2023 totalling $3.642 million.

On 11 August 2023, the Directors determined to pay a fully franked final dividend of 4.8 cents per share to the holders of fully paid ordinary shares in respect of the financial period ended 2 July 2023, to be paid to shareholders on 8 September 2023. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 25 August 2023. The total estimated dividend to be paid is $6.476 million.

	Company	
	2023 $'000	**2022 $'000**
Adjusted franking account balance	1,897	4,282
Franking credits that will arise from the payment of income tax payable as at the end of the financial period	–	1,721
Franking debits that will arise from the payment of final dividend in respect of the financial period[1]	(2,790)	(5,109)

1. The Company will have sufficient franking credits available prior to the payment of the final dividend on 8 September 2023.

There are no income tax consequences attached to the payment of dividends in either 2023 or 2022 by the Company to its shareholders.

Note 19: Retained earnings

	2023 $'000	2022 $'000
Retained earnings		
Balance at beginning of period	9,430	5,772
Profit attributable to owners of the Company	9,854	19,521
Payment of dividends	(15,563)	(19,512)
Share-based payments[1]	(155)	3,649
Balance at end of period	**3,566**	**9,430**

1. In the reporting period, 2,171,181 performance rights vested under the Company's Long Term Incentive Plan (2022: 3,068,000 performance rights) with a market value of $5.798 million (2022: market value of $17.362 million). This vesting resulted in an income tax benefit of $1.892 million (2022: $1.559 million). The vested portion of $0.155 million (2022: an increase to retained earnings of $3.649 million) was a reduction to retained earnings.

Note 20: Segment information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (the chief operating decision maker as defined under AASB 8) that are used to make strategic and operating decisions. The Chief Executive Officer considers the business primarily from a geographic perspective. During the period, the Company sold products online to New Zealand customers and opened its first store in Auckland, with a plan to establish a store network in New Zealand. Until the opening of the first store in Auckland, online transactions were conducted in Australian dollars and were undertaken by Baby Bunting Pty Ltd. Since August 2022, operations in New Zealand have been conducted by Baby Bunting NZ Limited, a wholly-owned subsidiary of the Company. All transactions were in New Zealand dollars. On this basis management has identified two reportable segment, Australia and New Zealand.

The following is an analysis of the consolidated entity's revenue and results from continuing operations by reportable segment:

	Australia		New Zealand		Total	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Revenue	518,727	507,274	5,554	–	524,281	507,274
Operating EBIT	28,287	44,619	(3,357)	–	24,930	44,619
Total segment assets	332,256	350,669	11,632	–	343,888	350,669
Additions to plant and equipment and intangibles	7,621	12,619	1,173	–	8,794	12,619
Depreciation and amortisation	35,117	31,763	1,352	–	36,469	31,763
Total non-current assets[1]	218,391	220,779	7,162	–	225,553	220,779
Total segment liabilities	226,590	235,948	9,364	–	235,954	235,948

1. Non-current assets exclude deferred tax assets.

Revenue reported above represents revenue generated from external customers. Inter-segment sales are eliminated on consolidation in the current reporting period (2022: nil).

The accounting policies of the reportable segment are the same as the consolidated entity's accounting policies described in Note 2. The Chief Executive Officer assesses the performance of the operating segment based on a measure of Operating EBIT. This measurement basis excludes the effects of interest revenue, other operating income, finance costs, income tax and employee equity expenses.

Operating EBIT

A reconciliation of operating EBIT to profit before tax is provided as follows:

	Australia		New Zealand		Total	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Operating EBIT	**28,287**	**44,619**	**(3,357)**	**–**	**24,930**	**44,619**
Finance costs	(8,485)	(6,987)	(248)	–	(8,733)	(6,987)
Employee share-based payments (inclusive of tax)	(965)	(9,330)	–	–	(965)	(9,330)
Profit before tax	**18,837**	**28,302**	**(3,605)**	**–**	**15,232**	**28,302**

Segment assets and liabilities

The amounts provided to the Chief Executive Officer with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. Reportable segments' assets and liabilities are reconciled to total assets as follows:

	Australia		New Zealand		Total	
	2023 $'000	2022 $'000	2023 $'000	2022 $'000	2023 $'000	2022 $'000
Total segment assets	332,256	350,669	11,632	–	343,888	350,669
Total segment liabilities	226,590	235,948	9,364	–	235,954	235,948

Note 21: Reserves

a. Share-based payments

	2023 $'000	2022 $'000
Share-based payments reserve		
Balance at beginning of period	15,782	8,954
Performance rights – expense (Note 21(b))	1,698	6,828
Performance rights – (reversal) (Note 21(b))	(1,949)	–
Balance at end of period	**15,531**	**15,782**

b. Performance rights

The consolidated entity has previously established a Long Term Incentive Plan (LTI Plan) involving the grant of performance rights. Upon vesting, each right entitles the participant to one fully paid ordinary share in the Company. No dividends or voting rights are attached to performance rights prior to vesting. The number of rights that vest, across various grants, will be determined by reference to certain performance conditions that include some or all of the following:

- Earnings per share (EPS) growth;
- Total shareholder return (TSR) growth; and
- Service condition (EPS, TSR).

Fair value of performance rights granted

The weighted average fair value of the performance rights TSR component granted during the reporting period under the LTI Plan is $0.45 (2022: $1.89). The fair value of the TSR component of performance rights is determined at grant date using a Monte-Carlo simulation. For the non-market component (EPS CAGR), the fair value is determined with reference to the share price of ordinary shares at grant date.

Performance rights series	Grant date	Grant date fair value	Exercise price	Expiry date
2022 (TSR CAGR)	23 November 2021	$1.89	nil	(1)
2022 (EPS CAGR)	23 November 2021	$5.81	nil	(1)
2023 (TSR CAGR)	8 December 2022	$0.45	nil	(1)
2023 (EPS CAGR)	8 December 2022	$2.56	nil	(1)

(1) These performance rights vest and can be exercised at the end of the relevant performance and service period, subject to meeting the relevant performance and/or service conditions. The Board determines whether vesting occurs. Any performance rights that have not vested following the final applicable performance period lapse.

	2023 (TSR CAGR)	2022 (TSR CAGR)
Share Price	$2.60	$5.49
Exercise price	Nil	Nil
Expected volatility	40%	40%
Expected life (years)	2.90	2.85
Expected dividend yield	3.00%	3.00%
Risk-free interest rate	3.20%	1.01%

Movements in performance rights during the period

The consolidated entity recorded a share-based payments write-back for performance rights of $0.251 million (2022: $6.828 million expenses) disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Administrative expenses".

The following reconciles the performance rights outstanding at the beginning and end of the period:

	53 weeks ended 2 July 2023			52 weeks ended 26 June 2022		
	TSR Number of rights	EPS Number of rights	Retention Number of rights	TSR Number of rights	EPS Number of rights	Retention Number of rights
Balance at beginning of the period	**3,310,500**	**3,035,500**	**–**	**3,737,500**	**3,737,500**	**564,000**
Granted during the period	822,000	548,000	–	825,000	550,000	–
Forfeited during the period	(366,000)	(294,000)	–	–	–	–
Exercised during the period	(1,015,681)	(1,155,500)	–	(1,252,000)	(1,252,000)	(564,000)
Lapsed during the period	(139,819)	–	–	–	–	–
Balance at end of period	**2,611,000**	**2,134,000**	**–**	**3,310,500**	**3,035,500**	**–**
Exercisable at end of period	**–**	**–**	**–**	**–**	**–**	**–**

c. General Employee Share Plan ("GESP")

The consolidated entity has previously established the GESP which is intended to be part of the consolidated entity's overall remuneration policy to reward Baby Bunting employees, from time to time. The GESP provides for grants of Shares to eligible employees of the consolidated entity up to a value determined by the Board.

During the reporting period, the Board issued a total of 277,182 shares (2022: 135,051 shares) in the Employee Gift Offer with no monetary consideration payable by participating eligible employees. Shares issued are subject to a disposal restriction in accordance with current Australian tax legislation. The fair value of $0.782 million (2022: $0.760 million) was fully expensed at the time of granting, as there are no performance or service conditions.

d. Share-based payment tax reserve

	2 Jul 2023 $'000	26 Jun 2022 $'000
Share-based payment tax reserve		
Balance at beginning of period	1,287	4,195
Tax effect of share-based payments[1]	(1,440)	741
Transfer to retained earnings[2]	155	(3,649)
Balance at end of period	**2**	**1,287**

1. $1.440 million (2022: increase in future income tax benefit of $0.741 million) represents a decrease in future income tax benefits recognised in share-based payment tax reserve that is in excess of any future benefits relating to the cumulative share-based payment expense recognised in profit or loss. This decrease in the reserve reflects the unlikelihood of performance rights vesting, relative to what was estimated as at the last reporting date, plus the addition of the 2023 performance rights granted to executives in December 2022 under the Company's Long Term Incentive Plan.
2. In the reporting period, 2,171,181 performance rights (2022: 3,068,000) vested under the Company's Long Term Incentive Plan (market value: $5.798 million (2022: market value of $17.362 million)). The balance transferred to retained earnings represents the income tax payable recorded in the reserves associated with share-based payments that vested in the current period.

Note 22: Related party transactions

The immediate parent and ultimate controlling party of the consolidated entity is Baby Bunting Group Limited (incorporated in Australia).

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

a. Loans to and from key management personnel and Directors

As at the end of the current reporting period, no loans were outstanding to or from key management personnel or directors of the consolidated entity (2022: nil).

b. Key management personnel compensation

The aggregate compensation made to directors and KMP of the Company and the consolidated entity is set out below:

	2023 $	2022 $
Short-term employment benefits	1,803,922	1,595,078
Post-employment benefits	123,334	105,699
Other long-term benefits	59,323	36,831
Termination benefits[1]	467,571	–
Share-based payments	50,950	2,256,794
Total	**2,505,100**	**3,994,402**

1. This figure reflects the accrual for amounts that Matt Spencer will receive in respect of the cessation of his employment, which is expected to occur on 31 December 2023. Matt Spencer ceased as a director of the Company on 2 June 2023, but remains an employee.

Note 23: Commitments for expenditure

Capital commitments

The consolidated entity has capital commitments totalling nil (2022: nil).

Note 24: Financial instruments – Fair values and risk management

The consolidated entity's activities expose it to a variety of financial risks, including market risk (foreign currency and interest rate risk), liquidity risk and credit risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. There have been changes to the consolidated entity's exposure to financial risks or the manner in which it manages and measures these risks from the previous period.

The consolidated entity holds the following financial assets and liabilities at reporting date:

	2023 $'000	2022 $'000
Financial assets		
Cash and cash equivalents	4,997	12,238
Other receivables	3,451	5,303
Derivatives designated as hedging instruments[1]	185	407
Total	**8,633**	**17,948**
Financial liabilities		
Trade and other payables	45,371	52,555
Other liabilities	1,782	2,250
Borrowings	11,209	12,946
Lease liability	164,353	156,232
Total	**222,715**	**223,983**

1. *Derivatives designated as hedging instruments* reflect the positive change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable inventory purchases in US dollars (USD).

a. Market risk

i. Foreign exchange risk

The majority of the consolidated entity's operations are transacted in the functional currency of the Company, AUD, and therefore exposure to foreign exchange risk is limited to around 15.9% of goods which are purchased in a foreign currency.

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (when revenue or expense is denominated in a foreign currency).

The Company is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments is foreign currency risk.

Foreign exchange forward contracts are designated as hedging instruments in cash flow hedges of forecast purchases in US dollars. These forecast transactions are highly probable. The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The Company has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Company uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments;
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments;
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items;
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The Company manages its foreign currency risk by hedging transactions that are expected to occur based on known purchases.

When a derivative is entered into for the purpose of being a hedge, the Company negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of known transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting payable that is denominated in the foreign currency.

At 2 July 2023, the Company adopted a hedging practice to address the foreign currency risk using foreign currency forward contracts. The hedged purchases were highly probable at the reporting date.

	Maturity					
	Less than 1 month	1 to 3 months	3 to 6 months	6 to 9 months	9 to 12 months	Total
As at 2 July 2023						
Foreign exchange forward contracts (highly probably forecast purchase)						
Notional amount (in $AUD'000)	3,528	3,359	–	–	–	6,887
Average forward rate (AUD/USD)	0.6842	0.6846	–	–	–	
As at 26 June 2022						
Foreign exchange forward contracts (highly probably forecast purchase)						
Notional amount (in $AUD'000)	1,859	7,824	1,599	–	–	11,282
Average forward rate (AUD/USD)	0.6992	0.7172	0.6881	–	–	

ii. Cash flow and fair value interest rate risk

The consolidated entity is exposed to interest rate risk as it borrows funds at floating interest rates. Any increase in interest rates will impact the consolidated entity's costs of servicing these borrowings, which may adversely impact its financial position.

iii. Summarised sensitivity analysis

The following table summarises the sensitivity of the consolidated entity's financial assets and financial liabilities to interest rate risk.

The consolidated entity is using a sensitivity of 2.5% (2022: 1.5%) as management considers this to be reasonable having regard to historic movements in interest rates. A positive number represents an increase in profit and a negative number a decrease in profit.

	Foreign exchange risk		
	Change in USD rate	-1.5%	+1.5%
At 26 June 2022	Carrying amount $'000	Profit $'000	Profit $'000
Financial assets			
Other financial assets	11,282	(169)	169
Total increase/(decrease)	**–**	**(169)**	**169**

	Foreign exchange risk		
	Change in USD rate	-2.5%	+2.5%
At 2 July 2023	Carrying amount $'000	Profit $'000	Profit $'000
Financial assets			
Other financial assets	6,888	(172)	172
Total increase/(decrease)	**–**	**(172)**	**172**

	Interest rate risk		
		-1.5%	+1.5%
At 26 June 2022	Carrying amount $'000	Profit $'000	Profit $'000
Financial liabilities			
Borrowings – CML Facility	13,075	196	(196)
Total increase/(decrease)	**–**	**196**	**(196)**

	Interest rate risk		
		-2.5%	+2.5%
At 2 July 2023	Carrying amount $'000	Profit $'000	Profit $'000
Financial liabilities			
Borrowings – CML Facility	11,209	280	(280)
Total increase/(decrease)	**–**	**280**	**(280)**

b. Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, who assess the consolidated entity's short, medium and long term funding and liquidity management requirements. The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities and by continuously monitoring forecast and actual cash flows.

Financing arrangements

The consolidated entity has access to the following undrawn borrowing facilities at the end of the reporting period:

	2023		2022	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
CML Facility	70,000	11,209	70,000	13,075
Bank Guarantee Facility	8,000	2,816	8,000	3,005
Total Facility	**78,000**	**14,025**	**78,000**	**16,080**

Maturities of financial assets and financial liabilities

The following tables detail the consolidated entity's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay. The table includes both principal and estimated interest cash flows. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at the reporting date.

	Maturity						
At 2 July 2023	Less than 6 months $'000	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial assets							
Cash and cash equivalents	4,997	–	–	–	–	**4,997**	3.85%
Other receivables	3,451	–	–	–	–	**3,451**	–
Other financial assets	185	–	–	–	–	**185**	–
Total	**8,633**	**–**	**–**	**–**	**–**	**8,633**	
Financial liabilities							
Trade and other payables	45,371	–	–	–	–	**45,371**	–
Other liabilities	1,782	–	–	–	–	**1,782**	–
Lease liability	17,480	17,453	66,176	47,546	41,025	**189,680**	–
Borrowings – CML facility	–	–	–	11,209	–	**11,209**	5.70%
Total	**64,633**	**17,453**	**66,176**	**58,755**	**41,025**	**248,042**	

At 26 June 2022	Maturity: Less than 6 months $'000	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total	Weighted average effective interest rate %
Financial assets							
Cash and cash equivalents	12,238	–	–	–	–	**12,238**	–
Other receivables	5,303	–	–	–	–	**5,303**	–
Other financial assets	407	–	–	–	–	**407**	–
Total	**17,948**	**–**	**–**	**–**	**–**	**17,948**	
Financial liabilities							
Trade and other payables	52,555	–	–	–	–	**52,555**	–
Other liabilities	2,250	–	–	–	–	**2,250**	–
Lease liability	14,916	15,329	57,542	46,233	42,723	**176,743**	–
Borrowings – CML facility	–	–	–	12,946	–	**12,946**	1.62%
Total	**69,721**	**15,329**	**57,542**	**59,179**	**42,723**	**244,494**	

c. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has endeavoured to minimise its credit risk by dealing with creditworthy counterparties and use of counterparty account based credit limits which are regularly reviewed against historical spending patterns for appropriateness.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represents the consolidated entity's maximum exposure to credit risk.

d. Fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

Note 25: Notes to the statement of cash flows

a. Reconciliation of profit for the period to net cash flows from ordinary activities

	2023 $'000	2022 $'000
Profit after income tax	9,854	19,521
Non-cash expenses and other adjustments:		
Depreciation and amortisation	36,469	31,763
Share-based payments and tax reserves	(755)	7,588
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	1,851	679
Decrease/(Increase) in other assets	956	(2,184)
Decrease/(Increase) in inventories	(1,378)	(16,679)
Decrease/(Increase) in deferred tax assets	2,484	(842)
Increase/(Decrease) in trade and other payables	(7,184)	4,019
Increase/(Decrease) in provisions	1,020	1,346
Increase/(Decrease) in income tax assets/liability	(682)	4,532
Increase/(Decrease) in other financial liabilities	370	2,622
Net cash provided by operating activities	**43,005**	**52,365**

b. Reconciliation of Cash and Cash equivalents

For the purposes of the statement cash flows, cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2023 $'000	2022 $'000
Cash on hand	88	84
Cash bank	4,909	12,154
Total	**4,997**	**12,238**

Note 26: Parent entity disclosures

As at, and throughout, the 53 weeks ended 2 July 2023 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
	2023 $'000	2022 $'000
Result of parent entity:		
Profit for the period	10,000	19,521
Other comprehensive income	–	–
Total comprehensive income for the period	10,000	19,521
Financial position of parent entity at period end:		
Current assets	–	–
Non-current assets	96,425	102,143
Total assets	**96,425**	**102,143**
Current liabilities	1,303	1,304
Non-current liabilities	–	–
Total liabilities	**1,303**	**1,304**
Total equity of the parent entity comprising of:		
Issued capital	86,357	86,357
Reserves	–	–
Retained earnings	8,765	14,482
Total equity	**95,122**	**100,839**

The Company does not have any contractual commitments for the acquisition of property, plant and equipment (26 June 2022: nil). The Company does not have any contingent liabilities (26 June 2022: nil).

The Company has entered into a deed of support with its wholly-owned subsidiary, Baby Bunting NZ Limited, under which it agrees to provide any necessary financial support to its subsidiary to ensure it is able to pay its debts as they become due in the normal course of business.

Note 27: Group entities

Baby Bunting Group Limited has three 100% owned subsidiaries, Baby Bunting Pty Ltd, Baby Bunting EST Pty Ltd and Baby Bunting NZ Limited. The investment in Baby Bunting Pty Ltd is $8,891,700 which represents the issued capital of the entity, together with the value of non-cash costs associated with the acquisition of the business.

The Company and Baby Bunting Pty Ltd have entered into a Deed of Cross Guarantee.

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, the wholly-owned subsidiary (Baby Bunting Pty Ltd) is relieved from the Corporations Act 2001 requirements for the preparation, audit and lodgment of Financial Reports.

The effect of the deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of the subsidiary under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full.

			Proportion of ownership interest and voting power held by the Company	
Name of subsidiary	Principal activity	Place of incorporation and operation	June 2023	June 2022
Baby Bunting Pty Ltd[1]	Retailing of baby merchandise in Australia	Australia	100%	100%
Baby Bunting EST Pty Ltd[2]	Trustee of the trust established in connection with the Company's employee share plans	Australia	100%	100%
Baby Bunting NZ Limited	Retailing of baby merchandise in New Zealand	New Zealand	100%	100%

1. This wholly-owned subsidiary has entered into a deed of cross guarantee with Baby Bunting Group Limited. Baby Bunting Pty Ltd became a party to the deed of cross guarantee on 19 June 2008.
2. Baby Bunting EST Pty Ltd has no material net assets or profit and the financial information disclosed in this report does not include Baby Bunting EST Pty Ltd.

Closed Group Disclosure

The members of the closed group are the Company and Baby Bunting Pty Ltd.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income and the Consolidated Statement of Financial Position of the entities that are members of the closed group are as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period ended 2 July 2023

	2023 $'000	2022 $'000
Revenue	521,013	507,274
Cost of sales	(326,413)	(311,512)
Gross profit	**194,600**	**195,762**
Store expenses	(108,794)	(97,397)
Marketing expenses	(7,442)	(8,226)
Warehousing expenses	(9,752)	(9,529)
Administrative expenses	(36,545)	(38,523)
Project expenses	(4,745)	(4,668)
Finance expenses	(8,485)	(6,987)
Profit before tax	**18,837**	**30,432**
Income tax expense	(6,396)	(8,781)
Profit after tax	**12,441**	**21,651**
Other comprehensive income for the period		
Net gain/(loss) on cash flow hedges	(101)	407
Income tax effect relating to the components of OCI	(55)	(122)
Total comprehensive income for the period	**(156)**	**285**
Profit for the period attributable to:		
Equity holders of Baby Bunting Group Limited	**12,285**	**21,936**

	2023 $'000	2023 $'000
Summary of movement in consolidated retained earnings		
Retained earnings at the beginning of the year	**11,560**	**5,772**
Profit for the year	12,441	21,651
Dividend provided for or paid	(15,563)	(19,512)
Transfer to retained earnings	(155)	3,649
Retained earnings at the end of the year	**8,283**	**11,560**

Consolidated Statement of Financial Position as at 2 July 2023

	2023 $'000	2022 $'000
Current assets		
Cash and cash equivalents	4,694	12,158
Other receivables	6,827	5,303
Inventories	95,242	95,479
Current tax assets	96	–
Other financial assets	185	407
Other assets	3,849	4,940
Total current assets	**110,893**	**118,287**
Non-current assets		
Plant and equipment	27,228	28,983
Intangibles	6,473	4,934
Goodwill	45,321	45,321
Loan to associate	6,973	4,657
Right of use asset	139,368	136,558
Deferred tax assets	6,355	10,137
Total non-current assets	**231,718**	**230,590**
Total assets	**342,611**	**348,877**
Current liabilities		
Trade and other payables	44,569	51,969
Other liabilities	6,093	5,785
Current tax liabilities	–	585
Lease liabilities	32,763	28,624
Provisions	6,450	6,528
Total current liabilities	**89,875**	**93,491**
Non-current liabilities		
Borrowings	11,209	12,946
Lease liabilities	126,648	124,306
Provisions	2,240	1,308
Total non-current liabilities	**140,097**	**138,560**
Total liabilities	**229,972**	**232,051**
Net assets	**112,639**	**116,826**
Equity		
Issued capital	88,695	87,913
Reserves	15,661	17,353
Retained earnings	8,283	11,560
Total equity	**112,639**	**116,826**

Note 28: Earnings per share

	2023 cents per share	2022 cents per share
Basic earnings per share from continuing operations[1]	7.4	14.9
Diluted earnings per share from continuing operations[1]	7.1	14.3

1. In the current and comparative reporting periods there were no discontinued operations.

a. Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2023 $'000	2022 $'000
Earnings used in the calculation of basic earnings per share from continuing operations[1]	9,854	19,521
	Number	**Number**
Weighted average number of ordinary shares for the purposes of basic earnings per share	133,884,366	131,387,517

1. In the current and comparative reporting periods there were no discontinued operations.

b. Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

	2023 $'000	2022 $'000
Earnings used in the calculation of diluted earnings per share from continuing operations[1]	9,854	19,521

1. In the current and comparative reporting periods there were no discontinued operations.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	Number	Number
Weighted average number of ordinary shares for the purposes of diluted earnings per share[2]	138,437,063	136,151,386

2. The weighted average number of shares takes into account the weighted average effect of performance rights granted during the year.

Note 29: Remuneration of auditors

	2023 $	2022 $
Assurance Services		
Review of the financial report for the half-year	55,075	47,850
Audit of the period-end financial report	165,225	143,550
	220,300	191,400
Tax and Consulting Services		
Taxation services	19,500	18,590
Remuneration advisory services	8,317	11,845
	27,817	30,435
Total remuneration	**248,117**	**221,835**

The auditors of the consolidated entity and the Company are Ernst & Young. From time to time, Ernst & Young provides other services to the consolidated entity and the Company, which are subject to the corporate governance procedures adopted by the Company.

Note 30: Events after balance sheet date

Dividends on the Company's ordinary shares

A final dividend of 4.8 cents per fully paid ordinary shares has been determined for the period ended 2 July 2023 - refer Note 18.

There have been no events subsequent to the date of this report which would have a material effect on the financial report of the consolidated entity at 2 July 2023.

Directors' declaration

The Directors declare that:

a. in their opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

b. in their opinion, the attached financial statements and notes are in compliance with International Financial Reporting Standards, as stated in Note 2 to the financial statements;

c. in their opinion, the attached financial statements and notes thereto of the Company and its subsidiaries (collectively the Group) are in accordance with the Corporations Act 2001, including compliance with the Australian Accounting Standards and the Corporations Regulations 2001 and give a true and fair view of the Group's financial position as at 2 July 2023 and performance for the period ended that date; and

d. the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

In the Directors' opinion, there are reasonable grounds to believe that the Company and its subsidiary which have entered into the Deed of Cross Guarantee, as detailed in Note 27 to the financial statements, will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Melanie Wilson
Chair
11 August 2023

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Building a better working world

Independent Auditor's Report to the Members of Baby Bunting Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Baby Bunting Group Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 2 July 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 53 week period then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 2 July 2023 and of its consolidated financial performance for the 53 week period ended on that date; and

(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Building a better working world

Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 2 July 2023, the Group held $98.0 million in inventories representing 29%of total assets of the Group. As detailed in Note 2(h) of the financial report, inventories are valued at the lower of cost and net realisable value. The cost of inventory is determined using a weighted average cost approach adjusted for volume rebates and settlements discounts. Judgement was required to be exercised by the Group to determine the net realisable value for items which may be ultimately sold below cost. These judgements include consideration of expectations for future sales based on historical experience. Given the process and judgement involved in determining the cost and carrying value of inventories, this was considered a key audit matter.	► Assessed the appropriateness of the Group's accounting policies in relation to inventory including volume rebates and settlement discounts in accordance with Australian Accounting Standards. ► Assessed the design and operating effectiveness of relevant controls used by the Group to record the cost of inventories and tested the cost price of inventory recorded for a sample of inventory items to supplier invoices. ► Assessed the effectiveness of controls in place relating to the recognition and measurement of rebate and settlement discount amounts and tested a sample of rebates and discounts to individual supplier agreements. ► Assessed the basis for inventory provisions recorded by the Group for slow moving inventories and stock losses. In doing so, we examined the Group's process for identifying slow moving inventories, negative margin, historical stock loss rate trends and expected costs to sell and had discussions with inventory controllers on inventory management. ► Considered sales subsequent to year end in assessing value of inventories at balance date by comparing the actual selling prices to the carrying value for a sample of inventories.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2023 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Building a better working world

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Building a better working world

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 47 to 67 of the directors' report for the 53-week period ended 2 July 2023.

In our opinion, the Remuneration Report of Baby Bunting Group Limited for the 53-week period ended 2 July 2023, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Tony Morse
Partner

Melbourne
11 August 2023

Shareholder information

as at 11 July 2023

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 134,906,489 shares on issue. All of the Company's shares are listed on the Australian Securities Exchange. There is no current on-market buy-back.

Twenty Largest Shareholders

	Name	Number of shares	% of shares
1	J P Morgan Nominees Australia Pty Limited	32,021,950	23.74
2	Citicorp Nominees Pty Limited	24,997,982	18.53
3	HSBC Custody Nominees (Australia) Limited	13,250,219	9.82
4	National Nominees Limited	5,186,042	3.84
5	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	2,702,296	2.00
6	BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd <DRP>	2,083,057	1.54
7	HSBC Custody Nominees (Australia) Limited <NT-Commwlth Super Corp A/C>	1,174,647	0.87
8	Mr Matthew Spencer	1,119,836	0.83
9	Mr Scott Teal	827,969	0.61
10	Fiddian Teal Nominees Pty Ltd <Fiddian Teal Family A/C>	747,693	0.55
11	BNP Paribas Noms Pty Ltd <DRP>	727,719	0.54
12	Mr Graeme John Haines + Mrs Sharni Gay Haines + Mr Malcom Arnold Haines <G & S Haines S/F A/C>	621,264	0.50
13	Warbont Nominees Pty Ltd <Unpaid Entrepot A/C>	573,584	0.43
14	Mr Michael Pane	539,237	0.40
15	Shankland Super Pty Ltd <Shankland SF A/C>	510,024	0.38
16	Fergus & Co Pty Ltd <Fergus Investment A/C>	488,974	0.36
17	Netwealth Investments Limited <Wrap Services A/C>	427,217	0.32
18	Highmont Heights Pty Ltd <Saunders Super Fund A/C>	400,000	0.30
19	Mr Shuffles SMSF Pty Ltd <Mr Shuffles Super Fund A/C>	376,502	0.28
20	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	358,955	0.27
	Total	**89,135,167**	**66.11**

Unmarketable parcels

There were 1,736 holdings of less than a marketable parcel (less than $500 in value or less than 338 shares) based on the closing market price of $1.48 per share at 11 July 2023.

Distribution of Shareholders and Shareholdings

Range	Total holders	% of total holders	Number of shares	% of shares
1 – 1,000	3,861	42.3	1,704,782	1.26
1,001 – 5,000	3,368	36.9	8,633,159	6.40
5,001 – 10,000	1,002	11.0	7,462,155	5.53
10,001 – 100,000	827	9.1	19,603,902	14.53
100,001 and over	71	0.7	97,502,491	72.27
Total	**9,129**	**100.0**	**134,906,489**	**100.0**

Percentage totals may not add due to rounding.

Substantial shareholders

As at 4 July 2023, the substantial holders (as disclosed in substantial holdings notices given to the Company) are:

Name	Date of most recent notice	Number of shares	Relevant interest
AustralianSuper Pty Ltd	10 Sept 2021	17,710,679	13.65%
Bennelong Funds Management Group Pty Ltd	3 February 2023	13,727,084	9.10%
Superannuation and Investments HoldCo Pty Ltd	8 June 2023	8,907,025	6.60%
Commonwealth Bank of Australia	8 June 2023	9,108,089	6.75%
KKR Entities	9 June 2023	8,907,025	6.60%

Voting rights of ordinary shares

The Company's Constitution sets out the voting rights attached to ordinary shares. In summary, shareholders may vote at a meeting of shareholders in person, directly or by proxy or attorney and, in the case of a shareholder that is a company, also by representative. On a show of hands, a shareholder has one vote. On a poll, a shareholder has one vote for every fully paid share held.

Performance rights

The Company has unquoted performance rights on issue. As at 11 July 2023, there were 10 holders of performance rights. There are no voting rights attached to performance rights.

This page has been left blank intentionally.

Corporate directory

Registered Office

Baby Bunting Group Limited

153 National Drive
Dandenong South VIC 3175

(03) 8795 8100

Directors

Melanie Wilson
Gary Levin
Donna Player
Gary Kent
Francine Ereira
Stephen Roche

Company Secretary

Corey Lewis

Investor Relations

Darin Hoekman
Chief Financial Officer

(03) 8795 8100

Shareholder Enquiries

Share Registry

Computershare Investor Services Pty Ltd
GRP Box 2975
Melbourne VIC 3001

1800 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)

Auditor

Ernst & Young

8 Exhibition Street
Melbourne VIC 3000

Securities Exchange Listing

Baby Bunting Group Limited shares are listed on the Australian Securities Exchange (ASX)

(ASX code: BBN)

Investor website

investors.babybunting.com.au

Online store

babybunting.com.au

babybunting.co.nz