

ASX Announcement
24 August 2023

Step One Clothing Limited

FY23 Result

Step One Clothing Limited (ASX:STP) (“Step One” or “the Company”), a leading online direct-to-consumer innerwear brand, today announces its financial results for the year ending 30 June 2023 (FY23).

Highlights

- Revenue of \$65.2 million, representing a 9.7% decrease vs pcp¹ (FY22: \$72.2 million)
- Statutory EBITDA of \$12.0 million, up 4393.9% vs pcp (FY22: loss of \$0.3 million)
- Proforma EBITDA of \$12.0 million, up 33.1% vs pcp (FY22: \$9.0 million)
- Gross margin remains at a strong level of 80.7%², down 1.3% vs pcp (FY22: 82.0%)
- Average order value (AOV²) increased by 19.3% to \$89.49 (FY22: \$74.99)
- Over 1,358,000² global customers, with 257,000 new customers added in FY23
- Inventory reduction plans in place as speed and flexibility within the global supply chain improve
- Strong financial position with closing cash of \$38.3 million and no debt

Dividend

- Dividend of 5 cents per share, fully franked, reflecting confidence in the business

Step One Founder and CEO, Greg Taylor said: “I’m pleased with the strong profit result achieved by Step One in FY23, reflecting our pivot from prioritising top-line growth to profitability in response to challenging trading conditions in our key markets. We continue to demonstrate our nimble business approach by adapting elements of our strategy, such as our advertising spend, to drive improvements and efficiencies throughout the Company.

“We continue to build our position as a leading brand for sustainable and high-quality innerwear products for both men and women. During the second half, we explored product adjacency opportunities within the women’s segment, successfully launching a new Bikini Brief line that has resonated well with our customers. We continue to refine and adapt our women’s strategy, now focusing on personalised communication with her through a new website and marketing optimisation.

“We are mindful of our elevated inventory position, and while this has helped us in managing global shipping delays to-date, we will maintain a prudent approach to inventory management. This involves focusing on reducing the levels of existing inventory SKUs while ensuring we maintain the flexibility to support new product launches.

“The Board has determined to pay a dividend of 5 cents per share. This dividend returns almost all profit earned since the IPO to shareholders. This decision reflects our confidence in our ability to continue generating profit and cash to fund the business’s growth.

“I remain steadfast in my belief in our products and my commitment to continue building this business. Our purpose is clear – to enrich lives through daily comfort. I am confident that as macro-economic conditions ease, Step One will be well positioned to pursue its international growth ambitions while maintaining a strong focus on profitability.”

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1. Prior corresponding period (pcp) is the 12 months ending 30 June 2022, also referred to as FY22.
 2. Operational data is for Step One direct to consumer (DTC) sales and excludes transactions with Amazon customers.
 3. Refer to separate Investor Presentation for reconciliation of Statutory to Proforma amounts and definitions of metric calculations. There are no proforma adjustments in the FY23 financial results.

Key Metrics

		FY23	FY22	Variance	
				\$/#	%
<u>Financial</u>					
Revenue	\$'000	65,184	72,187	(7,003)	-9.7%
Gross Margin	%	80.7%	82.0%		-1.3pcp
EBITDA Statutory	\$'000	12,023	(280)	12,303	4393.9%
EBITDA Proforma ²	\$'000	12,023	9,033	2,990	33.1%
EBITDA Proforma ² as % of Revenue	%	18.4%	12.5%		5.9pcp
NPAT Statutory	\$'000	8,616	(3,003)	11,619	386.9%
NPAT Proforma ²	\$'000	8,616	5,327	3,289	61.7%
<u>Operational ²</u>					
Website Visits	#m	14.8	16.5	(1.7)	-10.3%
Conversion Rate	%	4.4%	5.2%		-0.8pcp
Customer Orders	\$'000	697	945	(248)	-26.2%
New Customers	\$'000	257	375	(118)	-31.5%
Returning Orders as % of Total Orders	%	63%	60%		3pcp

Operational Review

During FY23, Step One prioritised profitability over growth. The Company's EBITDA result of \$12.0 million, a \$3.0 million increase from the proforma FY22 EBITDA of \$9.0 million, reflects the success of Step One's strategic pivot from growth to profitability during a period of challenging trading conditions in which revenue reduced by 9.7%. Profitability reflects the continuation of costs (such as COGS, distribution and transaction fees) incurred in FY22, along with a reduction in advertising spend and improving efficiency.

Step One continued to experience challenging trading conditions across all of its markets during the period, driven by weak consumer sentiment resulting from inflationary pressure and rising interest rates, which impacted discretionary spending.

Revenue by region	FY23	FY22	Variance	
	\$m	\$m	\$m	%
Australia	43.0	46.6	(3.6)	-7.7%
UK	20.3	22.0	(1.7)	-7.6%
US	1.9	3.6	(1.7)	-48.9%
Total	65.2	72.2	(7.0)	-9.7%

The key initiatives and developments implemented by Step One across all of its markets during the period are outlined below.

Product and Pricing

Step One's products continue to strongly resonate with its customers. Throughout FY23, the Company responded to the demand for vibrant colours by introducing a new core colour range for both men and women which received strong customer feedback. Additionally, Step One continued to use Limited Edition Colour (LEC) releases as a strategy to drive sales across its customer base. In FY23, following a period of frequent releases, the Company deliberately slowed down the release rate to build anticipation and hype in between colour releases.

Notably, Average Order Value (AOV) increased by 19.3% to \$89.49 as a greater emphasis was placed on upselling and bundling, leading to a 14.7% increase in Average Order Quantity (AOQ) to 4.4 units per order.

During FY23, Step One expanded its women's line with the introduction of the women's Bikini Brief in March 2023. During the second half, Step One has modified its communication strategies targeted at women. The involved the launch of a new website and optimisation of marketing efforts to enhance the women's journey.

Advertising and Customer Traffic

Reflecting its focus on profitability, Step One's advertising costs were \$23.3 million for the period, down 27.5% on pcp (FY22: \$32.1m). Step One focused its advertising strategy on customer recruitment, continuing to tailor content and channel utilisation for each market. The advertising mix is regularly changed to maximise value and will be reduced when customer recruitment costs exceed 'value' thresholds. Furthermore, additional focus has recently been placed on leveraging the customer database and deploying organic content across social media including Instagram and TikTok.

In line with reduced customer demand, the number of website visits decreased by 10.8% during the period. The conversion rate decreased to 4.4%, due to a shift in advertising channels. However, this metric remains strong compared to industry standards.

Step One's main sales events in FY23 were successful. The Company's primary sale events are the Black Friday Cyber Monday (BFCM) sale in November and the Mid-Year Sale (MYS) in June. Together, these events contributed 22% of revenue (FY22: 20%).

The main sales events are complemented by a broader range of customer acquisition initiatives through participation in other popular ecommerce events such as Click Frenzy.

Processes and Capability

The Company continues to adapt to the evolving macro environment, investing in processes and capabilities while maintaining a strong focus on profitability. Step One has improved its capability to segment its customer database and produce customised campaigns, supported by an improved and tailored online experience. Additionally, Step One continues to adapt its organisational structure to maximise value.

Channels and Partnerships

Step One initiated its entry into indirect channels, notably Amazon. While revenue is growing slowly through this channel, it has not yet materially impacted overall revenue and profitability.

Step One will seek to grow this channel further by exploring partnerships with those retailers with a strong online presence to build brand awareness. Step One is also exploring partnerships with other organisations with large customer or membership databases.

Inventory

Step One's inventory is not perishable or seasonal. Nonetheless, the Company responded to decreased demand by reducing the placement of new production orders in June 2022. Inventory levels are steadily decreasing as shown below:

\$m	31 Dec 21	30 Jun 22	31 Oct 22	31 Dec 22	30 Jun 23
Inventory value	17.5	25.4	30.0	26.7	23.3

\$1.0 million of the inventory reduction value was due to an increased level of provisioning for obsolescence. While inventory is not perishable or seasonal, the provision is required to assist in a reduction of the SKU range in advance of expanding the Women's line.

Plans remain in place to decrease the level of older inventory through FY24.

Environment, Social and Governance (ESG)

During the FY23, Step One achieved Forest Stewardship Council® (FSC®) certification (FSC® C183245), further bolstering its ESG credentials. This completes Step One's journey of attaining end-to-end supply chain certification with the FSC®. This includes certification of both the suppliers within the Company's supply chain and Step One itself.

The FSC® is an international NGO dedicated to promoting responsible management of the world's forests. By choosing products with FSC® labels, customers are assured that all the materials used by Step One are sourced from forests that have been audited by an independent third party to confirm adherence to FSC's® rigorous social and environmental standards.

Step One has also joined the FSCs® "Fashion Forever Green Pact" which involves responsible procurement and certified sourcing.

Strong Financial Position

Step One is in a strong financial position with closing cash of \$38.3 million, a robust balance sheet and no debt.

Cash receipts reduced in line with revenue reduction throughout the period. Cash outflows were favourably impacted by a reduction in operating costs, including advertising costs, offset by payments to suppliers which led to a decrease in trade payables.

Step One's Board has declared a 5 cents per share dividend, equating to a distribution of \$9.3 million. The funding level following this dividend distribution is deemed sufficient to support expansion and ongoing financial stability.

The Board will assess capital requirements at each reporting period with a view to return funds (generated from profits) that are surplus to requirements to shareholders in the form of a dividend which would be franked to the maximum extent possible.

Strategy and Outlook

Step One remains confident of the opportunities in each country and its ability to execute on the Company's strategy as the economic environment improves. The Company will pursue profitable growth in Australia and the UK, while continuing to balance growth and profitability in the US.

During FY24, the Company's strategy will be to focus on:

- Expanding the customer funnel
- Expanding partnerships with retailers and other organisations
- Expanding the product range for both men and women
- Investing in capability and product innovation
- Expanding sales channels and marketplaces
- Continuing to improve the customer experience

Due to this economic uncertainty in all jurisdictions, Step One is not providing guidance for FY24.

-ENDS-

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

Investor Conference Call & Webcast

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

Conference call registration:

s1.c-conf.com/diamondpass/10031243-agtd6.html

Live audio webcast registration:

<https://webcast.openbriefing.com/stp-fyr-2023/>

About Step One Clothing

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

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

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