

ASX Announcement
20 February 2024

Step One Clothing Limited

1H24 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 six months ending 31 December 2023 (**1H24**).

Highlights

- Revenue of \$45.1 million, representing a 25.5% increase vs pcp¹ (1H23: \$35.9 million)
- EBITDA² of \$10.1 million, up 35.6% vs pcp (1H23: \$7.5 million)
- Gross margin remains at a strong level of 81.2%, up 0.5% vs pcp (1H23: 80.7%)
- Average order value (AOV³) increased by 4.7% to \$94.47 (1H23: \$90.26)
- Over 1,540,000³ global customers, with 182,000 new customers added in 1H24 (1H23: 137,000 new customers added), 33% growth on pcp
- Strong financial position with closing cash of \$43.9 million and no debt

Dividend

- Interim dividend of 4 cents per share, fully franked
- Confidence in the business to distribute 100% of earnings and retain capacity to grow

Step One Founder and CEO, Greg Taylor, said: “Our strong performance during the first half of 2024 underscores the success of our profitable growth strategy. During the period, our strategic marketing initiatives directly led to our customer database growing to over 1,540,000 customers globally, up 40% from the 1,101,000 at 31 December 2022. The strength of our database and marketing has led to a pleasing 25.5% and 35.6% revenue and EBITDA growth respectively, reinforcing our market-leading position and the ongoing demand for our product. Sales of our women’s range was 13% of total revenue in 1H24 (1H23: 11%).

“We invested strategically in processes and capabilities to support our profitable growth mandate through the period. This half we focused our investment and energy on our AI capability for our marketing operation, which yielded greater efficiencies in the function.

“Our diversified sales channels have also played a pivotal role in our success this half. Notably, our partnership with Amazon contributed 6.1% revenue for the period, providing not only financial benefits but also enhancing the credibility and reach of the emerging Step One brand in both the UK and US.

We are now selling through one of the UK’s most prominent and respected retailers, John Lewis. We are excited about our collaboration with John Lewis, an iconic retailer in the UK with a large membership base. This strategic partnership aligns seamlessly with our commitment to quality products and superior customer service.

“We’ve expanded our partnership strategy to include aligned organisations such as Surf Life Saving Australia. We are excited about the prospect of reaching new customers while contributing to an organisation that has such importance to Australia and our way of life, which is firmly aligned with Step One’s values.

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1. Prior corresponding period (pcp) is the 6 months ending 31 December 2022, also referred to as 1H23.
 2. Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non-IFRS measure of performance. It is reconciled to profit before income tax expense in the 4D.
 3. Operational data is for Step One’s direct to consumer (DTC) sales and excludes transactions with Amazon customers.

"We experienced a 256.2% revenue growth in the US, and while our expansion into this market required an initial expenditure to acquire new customers, our data reveals that once someone experiences our Step One product, there's a 50% likelihood of their return. Given this, we remain confident in achieving profitability in the US market during the second half of the year.

"We are committed to driving growth, fostering strategic partnerships, and leveraging innovative solutions to enhance our capabilities. The first half of 2024 represents a pivotal period for Step One, and we look forward to continuing this trajectory of success."

Key Metrics

		1H24	1H23	Variance	
				\$/#	%
Financial					
AU	\$'000	26,265	24,113	2,152	8.9%
UK	\$'000	14,652	10,619	4,033	38.0%
US	\$'000	4,136	1,161	2,975	256.2%
Revenue	\$'000	45,052	35,893	9,159	25.5%
Gross Margin	%	81.2%	80.7%		0.5pcp
EBITDA ²	\$'000	10,130	7,473	2,660	35.6%
EBITDA as % of Revenue	%	22.5%	20.8%		1.7pcp
Profit after Tax	\$'000	7,107	5,275	1,832	34.7%
Operational³					
Website Visits	#m	8.3	7.0	1.3	18.6%
Conversion Rate	%	5.1%	5.0%		0.1pcp
Customer Orders	\$'000	469	375	94	25.1%
New Customers	\$'000	182	137	45	32.8%
Returning Orders as % of Total Orders	%	61%	63%		-2pcp

Operational Review

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

Product and Pricing

Step One's products continue to resonate strongly with its customers. In 1H24, the Company saw further growth in its Women's range, which now accounts for 13.0% of revenue (1H23: 11.2%). Revenue from the sale of the Women's lines increased by 44.8% on pcp. This growth was driven by the introduction of Step One's Seamfree range which, due to popular demand, has sold out on several occasions.

Across Step One's entire range, its Average Order Value³ (AOV) increased by a further 4.7% to \$94.47 (1H23: \$90.26), driven by a greater emphasis on upselling and volume based promotional discounts. The average price³ reduced to \$18.50 (1H23: \$20.40) as more customers sought volume discounts, while stronger marketing communication helped increase the average order quantity³ (AOQ) to 5.1 items per order (1H23: 4.4).

Processes and Capability

The Company continues to adapt to the evolving macroeconomic environment, investing in processes and capabilities, including AI, while maintaining a strong focus on profitability.

AI tools were strategically implemented into Step One's marketing function during 1H23, which has delivered greater marketing efficiency. By combining Step One's robust marketing capability with AI, the Company's marketing function has seen an increase in efficiency. Step One has been able to tailor

advertisements more successfully to specific demographics, facilitating rapid testing and optimisation of content.

Step One's resource model is to maintain a lean team of experts in delivering functional services. This approach provides access to leading ideas, market knowledge, resource capacity, as well as the ability to quickly adapt as required.

Sales Channels

Amazon

During the period, Step One experienced growing success with Amazon, with the platform accounting for 6.1% of revenue in 1H24 (1H23: 4.9%). In addition to contributing to revenue growth, Amazon also provides credibility and reach to the emerging Step One brand in the UK and US.

Sales on Amazon are fulfilled by Amazon requiring inventory to be held in their warehouses. This arrangement benefits from Amazon's broad distribution network. As of 31 December 2023, Amazon held approximately \$0.2m of inventory globally.

John Lewis

To deepen its reach into the UK market, Step One expanded its channels in the UK through a partnership with the national retail giant, John Lewis, launching a pilot in December 2023. John Lewis boasts a large member database and is a beloved and reputable brand in the market, known for its quality products and strong customer service, which aligns with Step One's values.

During the period, Step One connected with a new 3PL in the UK. This additional 3PL will focus on the fulfilment of sales made through John Lewis and, over the long term, increase fulfillment capacity for other sales channels. Although inventory duplication is necessary, it is noted that in these initial phases, the value is not material and is restricted to 'core' inventory SKUs. The new 3PL held less than \$0.1 million of inventory as at 31 December 2023.

Brand Partnerships

Step One has expanded its partnership strategy to reach organisations with large customer and membership databases that are culturally and professionally aligned with the Company.

Surf Life Saving Australia (SLSA)

SLSA is Step One's first brand partnership with a membership organisation, launched post period in mid-January 2024. Step One produced a bespoke/licensed print that promoted the SLSA 'swim between the flags' message. Step One seeks to attract new customers from the SLSA membership base, while SLSA benefits from receiving \$5 per pair sold.

Greg Taylor said, "We have always wanted to support those who support the community, and we had a lot of fun producing the products and advertising."

Sail GP

In the second half of FY24, Step One will launch its partnership with SailGP for the race in Sydney in February 2024. SailGP represents the Formula 1 of sailing; it's high performance and physically demanding, requiring quality innerwear for athletes. This partnership moves the brand into the realm of high-performance sport. SailGP's environmental credentials strongly align with those of Step One.

Advertising and Customer Traffic

Customer traffic increased 18.2% to 8.2 million (1H23: 7.0 million), while website visits and conversion rates increased to 5.1% (1H23: 5.0%). This was achieved by improving the approach to customer recruitment and prioritising recruitment in advance of sale periods.

Step One successfully expanded its new customer recruitment in the US, leading to increased sales in the region. The customer database increased by 62% (from 30 June 2023), and revenue increased by 256.2% on pcp. As a result of this investment in growth, the US reported a loss of \$0.8 million for the period. Step One is focused on returning its US operations to profitability in 2H24.

Revenue growth in Australia and the UK was 8.9% and 38.0% respectively (vs pcp), supported by customer database growth of 11% and 12% respectively (since 30 June 2023). Customer retention remains strong with purchases from existing customers comprising 61.2% of all sales (1H24: 63.5%).

Step One successfully planned and executed its primary sales event in 1H24, the Black Friday Cyber Monday (BFCM) sale in November, which contributed 26% of revenue (1H23: 25%). Other sales, including Click Frenzy and Boxing Day sales, also performed strongly.

Sustainability

Step One proudly holds the distinction of being Australia's inaugural Forest Stewardship Council® (FSC®) certified clothing company and is the nation's pioneering participant in the FSC® Fashion Forever Green Pact. Our commitment to responsible sourcing and support for sustainable forest management means that Step One's FSC® certification not only allows us to highlight the credentials of our products but also provides a robust platform for advocating sustainability to a broader audience.

In recognition of our FSC® certification and our steadfast commitment to addressing the climate and biodiversity crisis through the endorsement of sustainable forestry and responsible sourcing, Step One actively engaged in the FSC® Forest Week campaign in September 2023. We look forward to leveraging additional opportunities to directly promote our products to environmentally conscious customers within our own customer base, through Amazon's Climate Friendly Pledge filter, and via collaborative campaigns and event platforms facilitated by FSC®.

Inventory

Step One's inventory, which is neither perishable nor seasonal, has been reduced to align more closely with 12 months of inventory. The inventory value over time is reported below:

\$m	31 Dec 21	30 Jun 22	31 Dec 22	30 Jun 23	31 Dec 23
Inventory value	17.5	25.4	26.7	23.3	17.6

During the period, inventory reduced by \$5.7 million. This reduction was achieved through checkout upsell offers and sales of discounted mystery pairs comprised of older inventory.

The Company plans to build inventory levels of women's and other high selling SKUs to avoid stock-out on popular SKUs.

Strong Financial Position

Step One is in a strong financial position with closing cash of \$43.9 million, a robust balance sheet and no debt.

Cash receipts increased by 31.2% on pcp, in line with revenue growth throughout the period, while cash outflows were favourably impacted from the reduction in inventory.

Dividend

Step One's Board has declared a dividend of 4 cents per share, resulting in a 100% payout ratio. This equates to a distribution of \$7.4 million. The Company's funding level following this dividend distribution is deemed sufficient to support future expansion and ensure ongoing financial stability.

The Company is targeting a full year payout ratio of 100% of NPAT. The dividend is fully franked to the maximum extent possible, demonstrating the Board's commitment to aligning the interests of its investors with the Company's financial success.

Strategy and Outlook

Step One remains confident about the opportunities in each country and its ability to execute the Company's strategy effectively. The Company will continue to pursue growth in Australia, the UK and the US, while ensuring a balance between growth with profitability across all markets.

During the remainder of FY24, the Company's strategy will focus on:

- Growing the women's line.
- Expanding the customer funnel via partnerships with retailers and other organisations.
- Broadening sales channels and marketplaces.
- Expanding the distribution of the women's lines to the US.
- Investing in capability and product innovation.
- Continuing to improve the customer experience.

-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:

<https://registrations.events/direct/OCP52522>

Live audio webcast registration:

<https://webcast.openbriefing.com/stp-hyr-2024/>

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/>.

For all enquiries, please contact:

Saskia West
Citadel-MAGNUS
swest@citadelmagnus.com
0452 120 192

Jack Gordon
Citadel-MAGNUS
jgordon@citadelmagnus.com
0478 060 362