Annual Report 2020

Baby Bunting Group Limited
ABN 58 128 533 693

Contents

The 2020 Baby Bunting Annual Report reflects Baby Bunting's performance for the 52 week period from 1 July 2019 to 28 June 2020.

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

Notice of 2020 Annual General Meeting

10.00am (Melbourne time) Tuesday, 6 October 2020

The Company intends that the meeting will be held virtually. Further details will be contained in the Notice of Annual General Meeting that will be dispatched in September 2020.

Baby Bunting's vision is to be the most loved baby retailer for every family, everywhere.

our year

The 2020 financial year was a year that presented a number of challenges. Baby Bunting was able to respond and we continued to support new and expectant parents in the early years of parenthood.

We thank our customers who adapted to new ways of shopping with us, whether it be in-store with social distancing requirements or by shopping online and using our contactless click & collect service.

We thank our suppliers and other business partners, including our landlords, who all worked with us as we navigated some challenging times in the second half of the year.

Finally, we thank our more than 1,270 team members around Australia who worked hard to supply the essential maternity goods, services and advice needed by parents of newborns and young children.

There are around

6,000

babies born on average each week in Australia.

Our core purpose is to support new and expectant parents in the early years of parenting.

We operate

56 stores

around Australia along with Australia's leading specialist baby goods online store.

We have plans to continue to grow our store network to be over

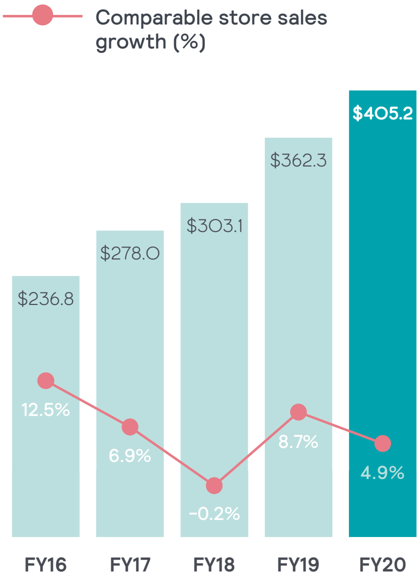
100 stores

We will continue to invest in digital to deliver the best possible retailing experience across channels and enable new business models.

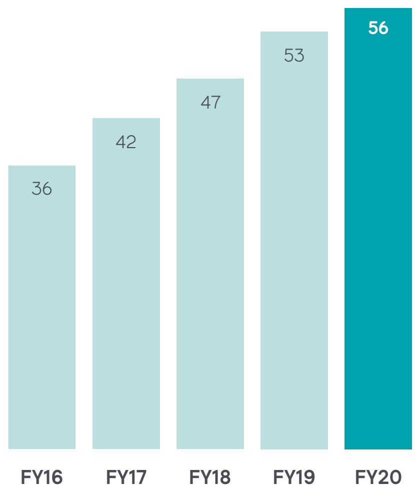
our results

In FY2020, we continued to perform strongly and grow market share. We achieved positive comparable store sales growth, gross margin improvement and retail cost leverage while also maintaining prudent working capital management resulting in zero debt and $13.3 million cash in the bank. To finish the year the way we did in a difficult environment reflects the strength of the brand and the dedication of our Team.

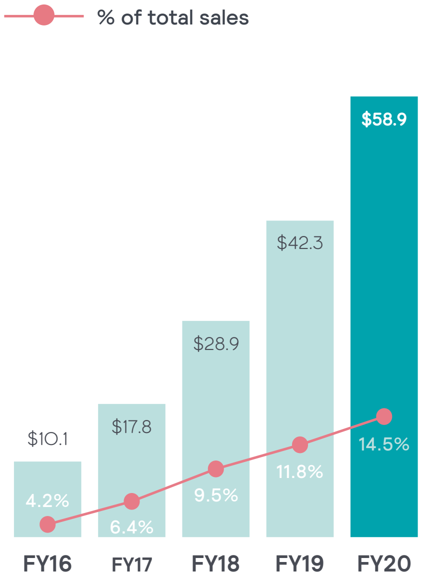
Sales ($m)[1]



Stores



Online sales ($m)[1]



1. FY19 shown on a 52 week basis.

SALES OF **$405.2m** UP 11.8% (vs prior 52 week period)

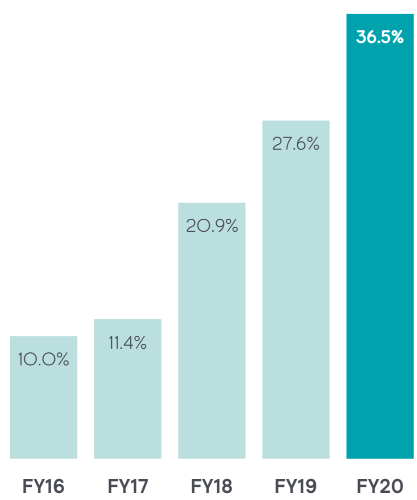
PRO FORMA NPAT $19.3m **UP 34.1%**

COMPARABLE STORE SALES GROWTH **4.9%** (vs prior 52 week period) **(10.5% in 2H)**

We are an omni-channel retailer with Australia's leading baby goods website and 56 stores around Australia. Online sales through our digital channel (including click & collect) grew 39% to make up 14.5% of our total sales for the year. Our digital channel also supports and complements our network of bricks and mortar stores. In relation to gross margin, a key driver of our gross margin improvement was the ongoing expansion of private label & exclusive products, which made up 36.5% of total sales.

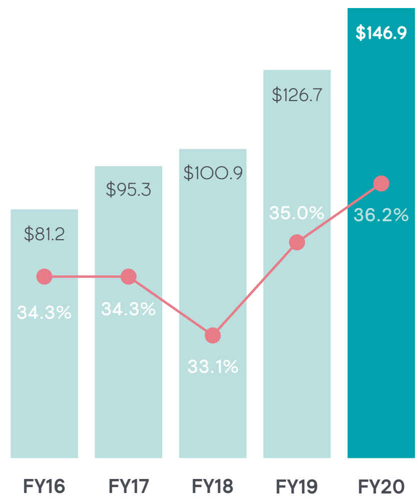
Private label & exclusive products

% of total sales



Gross profit ($m)[1]

Gross Margin %



Pro forma NPAT ($m)

1. FY19 shown on a 52 week basis.

chairman and ceo's report

Baby Bunting achieved extraordinary things this year as it provided essential maternity and baby goods to Australian parents and parents-to-be.

With around 6,000 babies born on average each week, we provide essential products, which include everyday consumables like nappies, baby wipes, food and formula as well as feeding products, car safety seats, prams, cots and sleeping products that help keep newborns and young children safe.

As the COVID-19 pandemic affected families and the community throughout Australia, our team members worked very hard to ensure that we supported new and expectant parents through the provision of essential items that they need. All of our stores stayed open, although we encouraged our customers to shop across all channels to ensure their safety and the safety of others. As a business, we innovated to implement changes to the way our customers shopped with us in such difficult times.

A particularly pleasing achievement during the year was being named the Large Format Retailer of the Year in 2019 by the Large Format Retail Association.

We did not qualify for, or participate in, the Australian Government's JobKeeper payment scheme.

More information about the Company's response to the COVID-19 pandemic is on page 16 of this Annual Report.

FY2020 financial results overview

During a year of unique challenges, Baby Bunting performed strongly.

In FY2020:

- total sales were $405.2 million, up 11.8% on the prior 52 week year;
- the total number of transactions was up 10.2% on the prior 52 week year;
- gross profit increased 15.9% on the prior period to $146.9 million and gross profit as a percentage of sales increased 120 basis points to 36.2%;
- statutory net profit after tax was $10.0 million, down 14.3% on the prior period and the Company finished the year with net cash of $13.3 million.

On a pro forma basis:

- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) were $33.7 million, up 24.1% on the prior corresponding period. Pro forma EBITDA margin increased 80 basis points to 8.3%; and
- pro forma net profit after tax (NPAT) was $19.3 million, up 34.1% on the prior corresponding period.

Ian Cornell
Chairman

Pro forma EBITDA and NPAT both exclude the significant costs associated with our business transformation agenda. They also exclude the non-cash impact of employee equity incentive expenses and the impairment of the carrying value of the Company's investment in its digital commerce technologies. This is to better demonstrate the underlying trading performance of the business. Pro forma EBITDA also excludes the impact of AASB 16 lease accounting for consistency with prior years.

A reconciliation between the statutory and pro forma financial results, along with information on the basis of preparation of the prior corresponding period, is set out in Section 2.5 on pages 31 to 34 of the Directors' Report.

Dividends

The Board has approved a final dividend of 6.4 cents per shares fully franked. Together with the interim dividend of 4.1 cents per shares, the total dividend payment for the year is 10.5 cents per share. This is equivalent to approximately 70% of the Company's FY2020 pro forma NPAT.

Operational highlights

A particularly pleasing achievement during the year was being named the Large Format Retailer of the Year in 2019 by the Large Format Retail Association. That award recognised Baby Bunting's consistent growth in the large format retail sector and its strong financial and operational performance.

During the year there was a focus on accelerating market share growth and profitability, while also continuing to invest in business transformation projects.

Store network growth

Baby Bunting finished the year with 56 stores, having opened new stores at Casula (NSW) and Wetherill Park (NSW) and at Westfield Doncaster (Vic). Doncaster is our second shopping centre format store. In FY2021, we expect to open a further three shopping centre format stores at Westfield Knox (Vic), Castle Towers (NSW) and Belconnen (ACT). In addition, plans are progressing for a new regional store in New South Wales. In total, we expect to open between 4 and 6 new stores in FY2021.

Matt Spencer
CEO and Managing Director

During the year, we commissioned, completed and updated our network plan. The Company is now looking to continue to grow its network of stores to over 100 stores (an increase from its previous network plan of over 80 stores). The Company plans to open four to eight new stores per year. In addition to our destination format stores, our regional format stores and our shopping centre format, the Company is looking at alternative store formats in the future, especially in inner city and CBD locations.

As we expand our store network, this will provide more parents and parents-to-be around Australia the ability to visit our stores and interact with our products.

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 site factors, the demographic profile of the target catchment, existing market share and the estimated effect of any sales re-direction on existing Baby Bunting stores. Changes in future consumer behaviour and retail trends will also be assessed when executing on the network roll-out.

Now looking to continue to grow our network of stores to over 100 stores (an increase from the previous network plan of over 80 stores)

Expand our private label and exclusive product strategy

Baby Bunting introduced a new private label goods brand, "Bilbi" used for soft goods. This joins our existing "4baby" brand. Plans are underway to introduce new private label brands in the hard goods category later in FY2021. Sales of private label and exclusive products across the year were 36.5% of sales, up from 27.6% in FY2019. We are well on our way to achieving our long term target of 50% of sales being exclusive to Baby Bunting.

Gross margin performance

Gross profit percentage finished the year at 36.2% an improvement of 120 basis points (following on from a 190 basis point improvement in the prior year). The gross profit percentage improvement has been achieved through increasing sales of higher margin private label and exclusive products, improvements in sourcing and achieving efficiency in our supply chain. In the second half of the financial year, the COVID-19 pandemic affected our gross margin as a result of changes of product mix and sales channel selection. In particular, in the earlier stages of the pandemic we experienced panic buying of consumables, such as nappies and baby wipes as well as baby health products, and an increase in customers relying on online delivery (which carries higher freight expenses).

We remain committed to providing great value to our customers. In the year, Baby Bunting introduced "Our Price Promise" which means that if a customer finds a lower price at a competitor (including GST and delivery charges) on an identical in-stock product, Baby Bunting will beat it by 5%.

Our new brand

During the year Baby Bunting's new corporate brand was rolled out, our first major brand change in Baby Bunting's 40 year history. Our new brand reflects our brand essence and what we are known for, but in a more contemporary and fresh way. Both our messaging and our visual brand is warm and supportive across all communication channels and we have adopted a consistent tone of voice across our marketing. Consistent branding reinforces our identity and purpose of supporting the new generation of parents. This is a brand that will stand alongside other national and international brands as we expand across different formats and new territories.

Expanding services

Our Baby On Board car seat installation business continues to grow. Towards the end of last financial year, Baby Bunting acquired some of its third party car seat installation providers and moved to provide a consistent and expanded service across all of its stores. Some existing team members have also been trained as supplementary fitters. Through better organisation and increased coverage, total sales growth for car seat installation services grew 42.2% during the year.

A car seat hire service was also established during the year, with car seat hire now available at selected stores throughout Australia. Plans exist to expand the hire business into other specialised product categories.

chairman and ceo's report

Core systems

Investments were made in FY2020 to implement a new merchandise demand planning and replenishment system into all stores. In FY2021, work will continue on a new merchandise financial forecasting system. These transformation projects are changing the way in which the Company forecasts, plans merchandise and replenishes stores with the aim of increasing availability and reducing the carrying cost of inventory.

Fulfilment of online orders from stores

The Company commissioned the Casula online fulfilment hub in Sydney during the year, joining our fulfilment hubs at Hobart (Tas) and Cannington (WA). Online fulfilment hubs enable orders to be fulfilled from locations closer to the customer and support our long-term target of being able to fulfil 90% of online metro orders with a same day delivery service. In line with our supply chain strategy, we also initiated online fulfilment from a number of stores during the year. This enabled us to quickly expand store-based online fulfilment capability in response to increases in demand, in particular during the initial stages of the COVID-19 pandemic.

New National Distribution Centre

Work commenced on a new purpose-built distribution centre in Dandenong South to replace the existing facility. This facility will be around 22,000 square metres, twice the size of the existing facility. Its increased storage and handling capacity will support future growth and enable an increased flow of product through the Baby Bunting supply chain which is expected to deliver significant and ongoing cost efficiencies. A new Store Support Office will be attached to the new facility. We expect to move to the new location in the second half of FY2021.

Our digital roadmap

Investment in digital capability is a very important element of our strategy to grow market share.

Online sales made up 14.5% of total sales during the year, up from 11.8% in FY2019. What we continue to observe is that online sales in market catchments increase following the opening of a Baby Bunting store in that catchment. The growth in the store network complements the growth in online sales.

Click and collect sales, where customers buy online and pick up in store, continued to grow strongly. Our contactless click and collect service became very important this year as customers adapted the way they shopped.

Click and collect in catchments where Baby Bunting has a store is almost 50% of all online sales in that catchment. With bigger and bulkier and high value products, click and collect is a very attractive online shopping option for our customers.

A new website was rolled out at the start of the financial year. The website endured performance and customer experience issues following its implementation in July 2019. To address the customer experience and performance issues, the new website was rolled back to the previous platform in November 2019. Following the roll-back, the online sales rate of growth stabilised and continued to improve during the second half. Following a decision not to proceed further with the selected software platform, Baby Bunting recognised a non-cash impairment to the carrying value of its investment in digital commerce technologies of $3.2 million.

Our investments in digital will continue in accordance with our strategic priorities and we have developed a road map to progressively transform the technologies that drive our digital channel and the ways in which customers can interact with Baby Bunting.

An exciting development that occurred after the end of the financial year, was that we launched deliveries into New Zealand from our website. Leveraging our digital marketing capability, we intend to grow our sales further.

Our Team

Building the Best Team is at the foundation of growing our business. Our team members provide service and advice to parents and parents-to-be at a very important time in their lives. Our Net Promoter Score finished the year at 81, which was an outstanding result. However, we continue to invest in training and leadership to ensure that we always improve the customer experience.

This year, more than ever, the way our team members have performed their roles has been outstanding. We thank each and everyone of them for their efforts as we all work to support new and expectant parents in the early years of parenting.

Our investments in digital will continue. We have developed a road map to progressively transform the technologies that drive our digital channel and the ways in which customers can interact with Baby Bunting

our stores

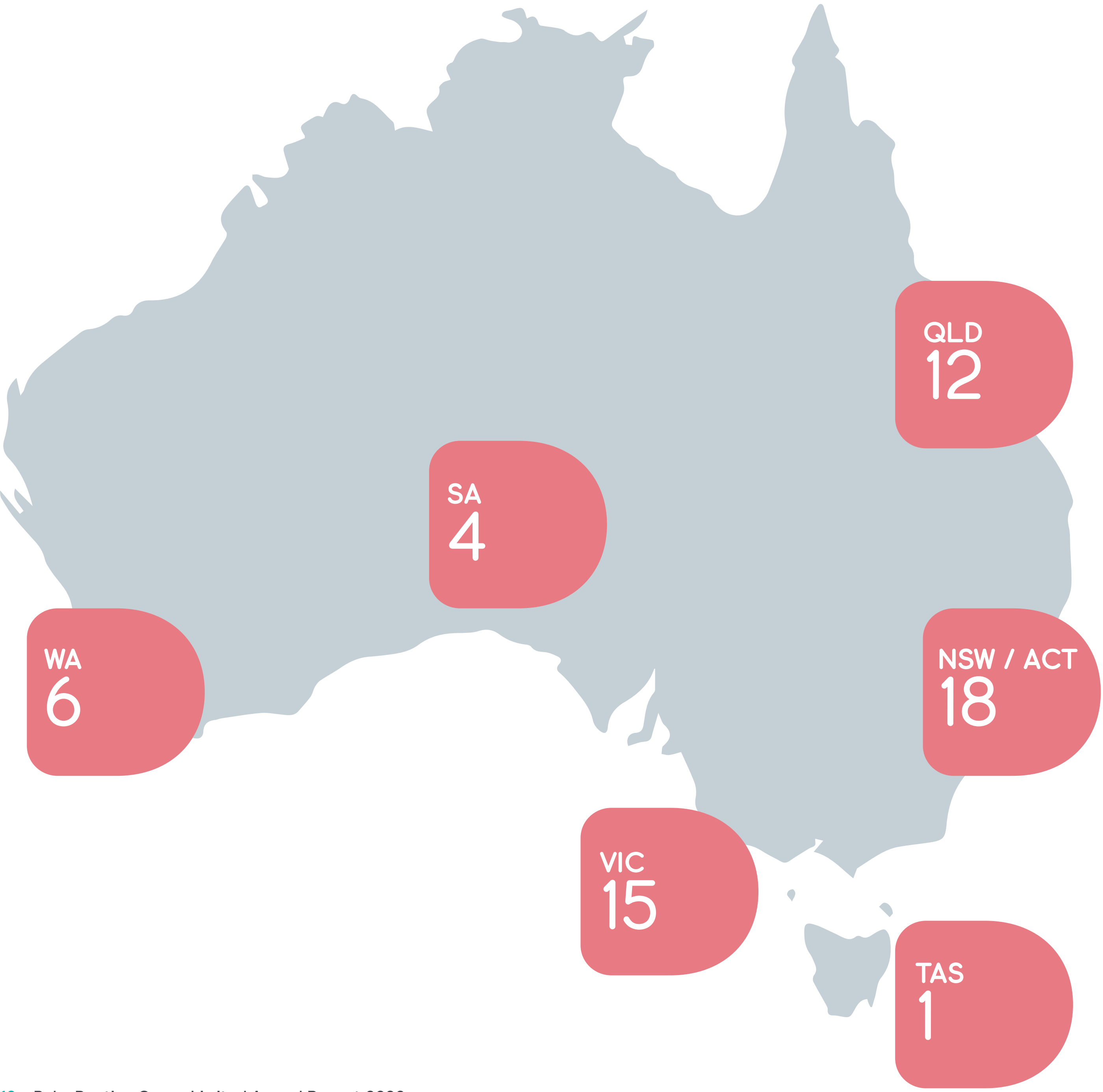
Our stores are at the heart of us supporting new and expectant parents in the early years of parenthood.

Apart from enabling parents to interact with our great range and get great advice, our store network provides a platform for expanding our services. Click & Collect and contactless click & collect were very popular services during the year. Our car seat installation service is available at all of our stores and our Baby on Board car seat installation team grew the number of installations significantly during the year. We have commenced offering car seat hire services across stores and will be expanding our range of hire services in the coming years.

During the year, we opened 3 new stores at Casula (NSW), Wetherill Park (NSW) and Doncaster (Vic) and we now have 56 stores around Australia.

We have invested in and built the capability to leverage more stores to undertake online fulfilment with long term goal that over 90% of all online orders in metro areas will be fulfilled same day.

Our 57th store will open at Knox (Vic) later in the year and we have commitments for plans for further stores to open in FY2021.



Our stores are at the heart of enabling us to support new and expectant parents in the early years of parenthood.

NSW/ACT
Albury
Auburn
Belrose
Bankstown
Blacktown
Campbelltown
Camperdown
Casula
Chatswood
Fyshwick (ACT)
Moore Park
Penrith
Rutherford
Shellharbour
Taren Point
Warners Bay
West Gosford
Wetherill Park

VIC
Ballarat
Bendigo
Chadstone
Doncaster
East Bentleigh
Frankston
Geelong
Hawthorn
Hoppers Crossing
Maribyrnong
Narre Warren
Preston
Ringwood
Taylors Lakes
Thomastown

QLD
Aspley
Booval
Browns Plains
Burleigh Waters
Capalaba
Fortitude Valley
Helensvale
Kawana
Macgregor
North Lakes
Toowoomba
Townsville

WA
Baldivis
Cannington
Joondalup
Midland
Myaree
Osborne Park

SA
Gepps Cross
Melrose Park
Mile End
Munno Para

TAS
Hobart

a 100+ store network plan

environmental, social and governance matters

Baby Bunting seeks to be a good and responsible corporate citizen. As we grow, we continue to consider the ways in which we operate and the impact we have.

Safety

We want our team to come to work safe and go home safe at the end of each day. A constant focus is on safety at work and on having all of our Team Members follow safe work practices. All Team Members have a responsibility for contributing to their own safety and the safety of those around them. We encourage our Team to Think Safe, Act Safe and Be Safe.

We recognise that in difficult times, apart from physical safety, we have to focus on the mental health and well being of our Team.

We have recruited a specialist in the field of return to work and have implemented a number of initiatives during the year to minimise the risk of injuries and to enable injured team members to return to work (on the same or modified duties) as soon as practicable. As a result, Baby Bunting's lost time injury frequency rate finished the year at a level that was more than 50% lower than the same time in the prior year.

Ethical Sourcing Code and Modern Slavery Statement

Baby Bunting has established an Ethical Sourcing Code that sets out the minimum standards expected of Baby Bunting's suppliers in areas of labour, environment and governance matters. If suppliers are unable to demonstrate a commitment to comply with Baby Bunting's Ethical Sourcing Code, Baby Bunting may choose to cease trading with that supplier.

Baby Bunting provides products, services and advice to parents and parents-to-be and their families. We rely on their trust, as well as the trust of the communities in which we operate, our investors and other stakeholders. Our suppliers play a critical role in helping Baby Bunting to meet our standards of behaviour and our values. Our mutual success depends on building and maintaining trust in the way each of us conducts our business.

The minimum requirements stated in the Code are:

- being committed to the health and safety of our team;
- being committed to acting legally and ethically;
- being committed to respecting labour and human rights;
- being committed to communicating openly and honestly;
- being committed to environmentally sustainable practices.

environmental, social and governance matters

Among other things, these establish minimum standards for our suppliers that require a commitment to:

- providing a safe and healthy working environment and taking all practical and reasonable measures to eliminate workplace injuries and illness;
- complying with all applicable laws and regulations and not being involved in bribery or corruption in any form;
- maintaining policies and practices to allow violations, misconduct or grievances to be reported by workers and addressed without fear of retaliation;
- ensuring all work is freely chosen without the use of forced or compulsory labour and with a zero tolerance approach to the use of illegal child labour and respecting workers' rights to lawfully and peacefully form or join trade unions of their choosing and to bargain collectively.

You can read more about Baby Bunting's approach to ethical sourcing in our first Modern Slavery Statement available at babybunting.com.au/investor.

Ethical behaviour

Baby Bunting has a number of policies designed to ensure team members act in accordance with Baby Bunting's legal obligations and in an ethical matter. These policies include:

- Code of Conduct
- Business Conduct Compliance Policy
- Anti-Bribery and Corruption Policy
- Whistleblower Protection Policy

Copies of these policies are available at babybunting.com.au/investor.

Support for communities

Life's Little Treasures Foundation

Baby Bunting continues to be a Major Partner for the Life's Little Treasures Foundation, a foundation which provides support to parents and families of premature and sick babies to assist them during what can be an uncertain and emotional journey. Life's Little Treasures Foundation has grown into Australia's leading charity dedicated to supporting premature babies and their families. Each year in Australia, over 48,000 babies are admitted into neonatal intensive and special care units.

Baby Bunting will continue as a presenting partner for the Life's Little Treasures Foundation annual "Walk for Prems" event for at least the next two years. During 2019, Baby Bunting raised and contributed over $100,000. Further information about the Foundation and how to contribute is available at lifeslittletreasures.org.au.

Support for the Australian bushfire appeal

Following the devasting bush fires that affected a number of communities throughout Australia last summer, Baby Bunting helped by enabling donations in-store for the Red Cross Australian Bush Fire Appeal and, together with Baby Bunting's own corporate donations, over $85,000 was raised to support bushfire recovery.

Maternal and child health nursery equipment program

The Victorian Department of Education and Training provides support for the Victorian Maternal and Child Health Service nursery equipment program. The program is administered by EACH Limited, a provider of an integrated range of health, disability and community mental health services across Australia.

Under the program, Baby Bunting supplies nursery products, such as car seats, cots and mattresses, to eligible families identified by the Maternal and Child Health Service. Baby Bunting has been assisting with the program since 2011.

At the end of the financial year, around half of the Company's team members were shareholders of the Company, the vast majority of whom acquired their shares because of Baby Bunting's General Employee Share Plan.

Encouraging employee share ownership

Baby Bunting operates a General Employee Share Plan. In FY2020, Baby Bunting made available shares to employees under the 5th employee share plan gift offer and issued 185,134 shares to eligible employees who each received approximately $1,000 of Baby Bunting shares.

At the end of the financial year, around half (47%) of the Company's team members were shareholders of the Company, the vast majority of whom acquired their shares because of the GES Plan.

To illustrate the benefits provided to participating team members under the GES Plan, an employee who has participated in each of the five share offers under the GES Plan (since 2015) has received 2,175 Baby Bunting shares. This represents around $7,000 worth of value (using the share price at the end of the financial year and including the dividends that have been paid on those shares).

Further details are set out in Section 5.4 of the Remuneration Report.

Diversity

Baby Bunting recognises that diversity not only includes gender diversity but also includes matters of age, ethnicity, religion, cultural background, physical ability or sexual orientation. Baby Bunting sets out our commitment to recognising the importance of diversity for the business through our Diversity Policy. The policy includes a commitment to diversifying sources of recruitment and merit-based appointments, as well as recognition that Baby Bunting will not tolerate unlawful discrimination, bullying, harassment or victimisation.

Baby Bunting made some good progress in achieving its measurable objectives for gender diversity this year. At the end of the year, 44% of the Company's Regional and Area Managers were female, an increase from 22%. This number increases to 70% (up from 58%) when Store Managers are added to the leadership grouping. At the senior executive level, 27% of roles are held by women (up from 22% in the prior year). Finally, the Board has a commitment to have equal representation of men and women by 2025 (currently two of our six directors are female).

Further details are included in the Corporate Governance Statement.

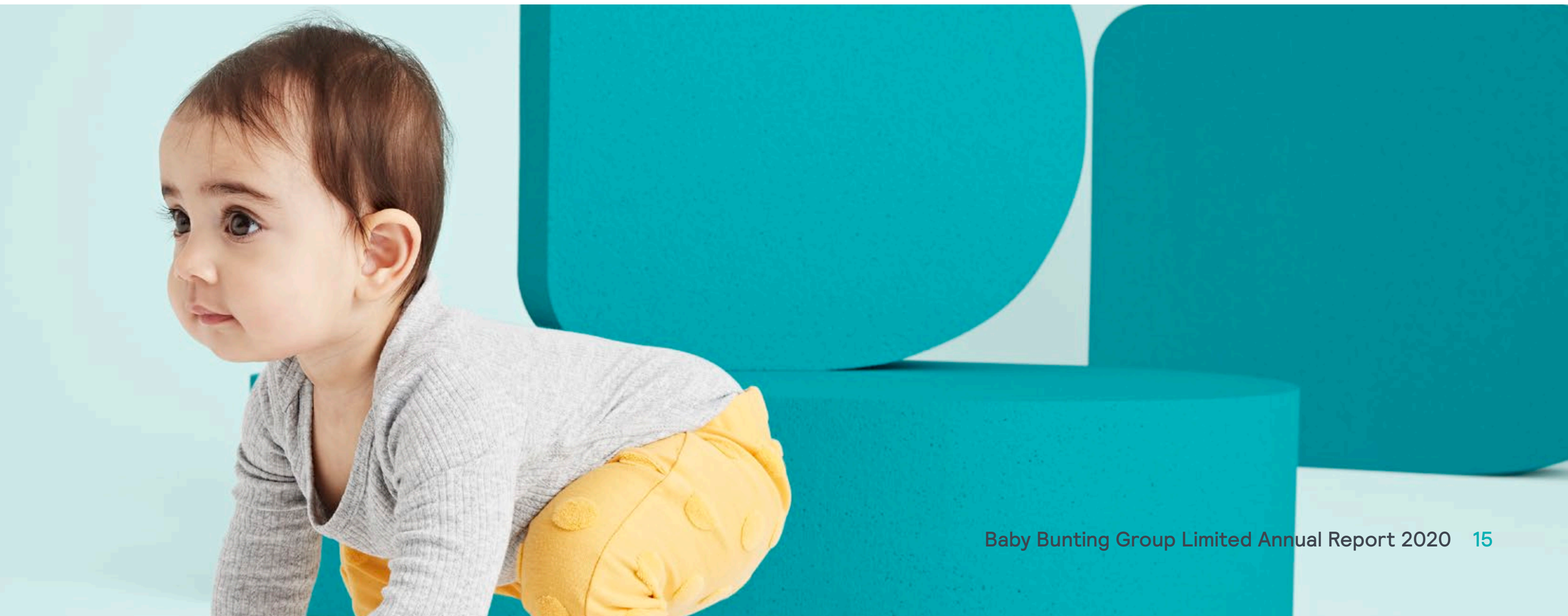
Environmental matters

Baby Bunting has a number of initiatives designed to ensure its practices are environmentally sustainable. These include:

- Baby Bunting supports the Australian Packaging Covenant and is working with its suppliers to minimise packaging in its supply chains;
- Baby Bunting's store designs build in energy efficiency, including only using energy efficient lighting, employing water harvesting solutions and automatic hot air venting in stores located in warmer environments.

Baby Bunting is constructing a new purpose-built Distribution Centre and Store Support Office. It is expected to be completed in the first half of FY2021. The new facility is targeting a 5 star Green Star rating with environmentally sustainable development initiatives, including:

- installation of a photovoltaic system on the Distribution Centre's roof;
- high performance insulation and glazing;
- high performance heating, ventilation and air conditioning systems and domestic hot water system;
- stormwater collection and treatment;
- water efficient landscaping;
- light sensor to control energy efficient LED lighting in all areas;
- reduction in potable water consumption through efficient high WELS rated sanitary fixtures and appliances;
- construction materials with low life-cycle impacts.



our response to COVID-19

The emergence of the COVID-19 pandemic has given rise to a number of challenges. To manage those challenges and to ensure the health and safety of our team members and customers and the business, a COVID-19 Management Response Committee was established.

Management and governance

The COVID-19 Management Response Committee adopted eight objectives:

- protecting the health and wellbeing of our Team and our customers;
- keeping the Team employed by trading profitably and as an essential service;
- supporting parents and parents-to-be and the around 6,000 new babies born per week;
- supporting our supplier partners and protecting the supply chain;
- scenario planning to prepare for the worst;
- managing our cashflow;
- communicating effectively with the business;
- building a sustainable long-term recovery strategy.

The Board, via its regular schedule of Board meeting as well as meetings of the COVID-19 Response Board Committee it established, oversaw management's response planning.

The COVID-19 Management Response Committee assessed issues arising from the COVID-19 pandemic across three broad areas: day-to-day operations and trading; the period of the next 3 to 6 months; and longer-term strategy and opportunities.

Supporting our Team

The COVID-19 pandemic brought about a number of changes to Baby Bunting's operations in the second half of the financial year, including:

- introducing additional health and safety measures into stores and other operations, including physical distancing, customer number management in stores and expanding cleaning regimes as well as the introduction of contactless click & collect;
- changing work practices in the Distribution Centre, including introducing physically segregated shifts and increased physical distancing measures and cleaning;
- moving all Store Support Office team members to remote working environments.

Paid COVID-19 leave policy

Baby Bunting introduced a paid COVID-19 special leave policy, to provide team members who were unable to work due to self-isolation measures or the unanticipated closure of schools or childcare with paid leave. This policy provides paid leave to support an affected team member for up to two weeks of rostered or scheduled work. The policy applies to full and part-time employees and, notably, casual employees.

This policy is important as it ensures team members who are sick or awaiting test results due to COVID-19, need not attend work knowing that they will not be financially disadvantaged.

Changing the way our customers shop

Online shopping and contactless click & collect services ensured customers could get the essential products they required while minimising contact in-store.

To support the ongoing operations of the online store, Baby Bunting expanded its online fulfilment capacity (through expanding the number of fulfilment hubs and stores) and it also temporarily introduced additional shifts in its online store to meet increased demand.

Baby Bunting also introduced a Helping Hand service to provide store-based telephone assisted shopping for customers. This service was particularly useful where customers required additional advice about products or had an urgent need to get the products they required.

Acknowledging our Team

To recognise the efforts of our Team during the current pandemic, Baby Bunting will be providing full time, part time and casual team members with additional benefits. Full-time team members will receive $250 gifts cards, with part time and casual team members receiving $200 gift cards. In addition, full time and part time team members will be provided with additional annual leave.

Later in the year, to further recognise and thank our Team, Baby Bunting will also make available $1,000 of Baby Bunting shares to eligible team members under the Company's General Employee Share Plan.

Risk factors

Similar to other Australian retailers, the COVID-19 pandemic gives rise to a number of risks for Baby Bunting. Information on some of these risks is set out in Section 4.1 of the Directors' Report on page 37 and 38.


Need help?
Ask about our Helping Hand Phone Service
Prefer to shop from home?
Shop online with our contactless Click & Collect
You're welcome in-store
but please make sure you wear a mask and observe social distancing
Do you need to self-isolate?
COVID-19 paid leave is available

our board

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

Ian Cornell

Chairman, Non-executive Director

FAIM, FAHRI

Member of the Remuneration and Nomination Committee

Ian has extensive experience in the retailing and property industries in Australia. He most recently held senior executive corporate roles with the Westfield Group until 2012, including responsibility for all HR functions and the overall management of retail relations of the Group.

Prior to joining Westfield, Ian had a 23 year career with Woolworths. His roles included Chief General Manager of Woolworths' Supermarket division and as a key member of the management team that implemented successful growth strategies such as "The Fresh Food People" and the establishment of the Dan Murphy's chain.

Ian has also been Chairman and CEO of Franklins.

Ian was a non-executive director of Myer Holdings Limited from February 2014 to October 2019.

Matt Spencer

CEO and Managing Director

B.Bus

Matt joined Baby Bunting as CEO and Managing Director in February 2012 (he was appointed as a Director of the Company on 23 April 2012).

Prior to Baby Bunting, Matt was General Manager Retail – Australia, New Zealand and the UK at Kathmandu from 2007 to 2012 where he was responsible for over 110 stores, including network planning, store design and store development.

Matt's previous roles include Operations, Strategy and Development Manager of Coles Express as well as various management roles at Shell Australia. He was a key contributor to the establishment and roll-out of the Coles Express brand.

Gary Levin

Non-executive Director

B.Comm, LLB, MAICD

Chairman of the Audit and Risk Committee

Gary has over 30 years' management, executive and non-executive experience in public and private companies including in the retail, investment and property industries.

Gary was previously the founder and managing director of TLC Dry Cleaners Pty Limited and joint managing director of Rabbit Photo Holdings Limited.

He was a non-executive director of JB Hi-Fi Limited from November 2000 until October 2016.

Melanie Wilson

Non-executive Director

MBA, B.Comm (Hons), GAICD

Chairman of the Remuneration and Nomination Committee
Member of the Audit and Risk Committee

Melanie has more than 15 years' retail experience in senior management roles. Her appointments included Limited Brands (Victoria's Secret, Bath & Bodyworks – New York), 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 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 has an MBA from the Harvard Business School and is a graduate of the Australian Institute of Company Directors.

She is currently a non-executive director of iSelect Limited (appointed in April 2016), EML Payments Limited (appointed in February 2018) and JB Hi-Fi Limited (appointed in June 2020). She was a non-executive director of Shaver Shop Group Limited (June 2016 to May 2020).

Donna Player

Non-executive Director

BA, GAICD

Member of the Remuneration and Nomination Committee

Donna has over 35 years' experience in retail, marketing and product development gained in both retail and wholesale industries. Currently, Director of Merchandise for Camilla Australia. In the four years to May 2016, Donna was the Group Executive of Merchandise for Fashion, Beauty, Footwear, Accessories and Home for David Jones. Prior to her role at David Jones, Donna was General Manager, Merchandise and Planning for BIG W.

During her career, Donna has had executive responsibilities for merchandise, planning, branding, sourcing and supplier strategies.

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).

Gary Kent

Non-executive Director

BEc, GAICD

Member of the Audit and Risk Committee

Gary was appointed as a Non-executive Director during the year.

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. More recently, 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.

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

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 28 June 2020 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 (3rd 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 babybunting.com.au/investor.

Developments during FY2020

During the 2020 financial year, the Company has updated certain of its governance practices in advance of reporting against the 4th edition of the Corporate Governance Principles and Recommendations. These updated principles and recommendations will first apply to the Company in the financial year commencing on 1 July 2020. The Company will report against the 4th edition Principles and Recommendations in its 2021 Corporate Governance Statement.

Developments during the year included:

- a review of the charters for the Audit & Risk Committee and the Remuneration & Nomination Committee;
- introduction of an Anti-Bribery and Corruption Policy;
- review of the Continuous Disclosure Policy.

COVID-19 Response Committee

In the second half of the year, events associated with the COVID-19 pandemic were a key focus for the business. The Board established a COVID-19 Response Committee to assist in its overview of the Company's response to COVID-19. The Committee consisted of all Directors and had the authority of the Board in connection with matters relating to the COVID-19 response plan established by management. The Committee was able to meet on short notice to monitor the business initiatives and planning being undertaken by management in response to COVID-19 developments.

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 41 of the Directors' Report.

Principle 1: Lay solid foundations for management and oversight

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 systems;
- the roles and responsibilities of the Chairman and the Company Secretary;
- the division of authority between the Board, the CEO and Managing Director and management;
- the ability of Directors to seek independent advice; and
- the process for periodic performance evaluations of the Board, each Director and Board committees.

Director and senior executive appointments – conducting appropriate checks

Potential new directors are subject to appropriate screening and background 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, in addition to screening and background checks, police checks are also undertaken.

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 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, 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 lodgements with the ASX and other regulators. The company secretary is accountable to the Board, through the Chairman, 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.

Diversity and inclusion

The Board has adopted a Diversity Policy which sets out Baby Bunting's commitment to recognising the importance of diversity and inclusion for its business. The policy is available on Baby Bunting's corporate website (babybunting.com.au/investor).

Currently, there are two female directors out of a total number of six directors (33%). The Board has a target that women and men be equally represented on the Board by 2025. A time frame to 2025 has been chosen as it has regard to the ideal number of directors, the current mix of tenure on the Board and the time required to identify and attract appropriate candidates.

In addition, the Board has adopted two measurable objectives for achieving gender diversity at the Company:

Objectives	Progress
That at least a third of the Company's senior executives be women in the medium term	Women comprised 27% (3 out of 11) of the Company's senior executives. This is an increase from 22% at the end of FY19. Over the medium term, the objective is that the senior executive team reflect an increased degree of gender diversity. The "senior executive" team comprise those executives reporting to the CEO, plus the CEO.
That 50% of the Company's Area Managers and Regional Managers be women in the medium term	In our retail operations, Regional Managers, Area Managers and Store Managers are the leadership roles. Across this group, approximately 70% are female. (FY19:58%) At the Regional Manager and Area Manager level 44% are female, an increase from 22% in FY19. The objective is to increase this proportion to 50%, including by drawing on our talent within the business.

Gender diversity

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

	Number of females in category at 28 June 2020	Total number in category at 28 June 2020	% of females	Number of females in category at 30 June 2019	Total number in category at 30 June 2019	% of females
Board (including CEO and Managing Director)	2	6	33%	2	6	33%
Senior Executives (including CEO and Managing Director)	3	11	27%	2	9	22%
Regional, Area and Store Managers	48	69	70%	38	65	58%
All Team Members	1,000	1,279	78%	1,002	1,272	79%

In July 2020, 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.

During the financial year, 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.

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 CEO and Managing Director and review the results of that performance evaluation process. The Board is responsible for reviewing the performance of the CEO and Managing Director.

In relation to the performance of senior executives, after the end of the reporting period, 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 CEO and Managing Director, the Board considered the CEO and Managing Director's performance for the year having regard to, among other things, his specific performance objectives and the Company's performance. The Chairman was responsible for engaging with the CEO and Managing Director in relation to the Board's assessment of his performance.

Principle 2: Structure the Board to 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 three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell Donna Player

Details of the qualifications and experience of Committee members are set out on pages 18 and 19. The number of meetings of the Committee and attendances by members during the reporting period are set out on page 41 of the Directors' Report.

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 Chairman of the Committee is not to be the Chairman 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).

The Committee charter was reviewed in October 2019. Following the review, minor variations were made to the charter and an updated version of the charter has been included on the Company's website.

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.

Collectively, the Board has those skills and other relevant experience that it considers is appropriate for the effective governance of the Company. The matrix, and the extent to which those skills are represented on the Board collectively among the five Non-executive Directors, are set out below:

Skill or experience	Number of Non-executive Directors
Retail Experience at a customer/retail business obtained through an executive or leadership position	5
Logistics Knowledge and experience in retail logistics and distribution	3
Information technology Knowledge and experience in the use and governance of information technology and applications in a retail environment	5
Digital disruption Current experience with digital and online retailing, including a familiarity with changes in technology, applications and changing consumer habits	4
Executive leadership Demonstrated success at CEO or senior executive level in a major business	5
Commercial and financial acumen Demonstrated success in sustainably managing the financial performance of a large retail business or commercial undertaking	5
People Experience with managing people and teams, including the ability to appoint and evaluate senior executives, manage talent development and oversee organisational change	4
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)	3
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	5

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.

Name	Position	Appointed	Approximate length of service
Independent Directors			
Ian Cornell	Chairman, Independent Non-executive Director	1 January 2015	5 years 8 months
Gary Levin	Independent Non-executive Director	25 August 2014	6 years
Melanie Wilson	Independent Non-executive Director	15 February 2016	4 years 6 months
Donna Player	Independent Non-executive Director	16 January 2017	3 years 7 months
Gary Kent	Independent Non-executive Director	12 December 2018	1 year 8 months
Executive Director			
Matt Spencer	CEO and Managing Director	23 April 2012	8 years 4 months

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.

In addition to their normal commitments to Board and Committee matters, during the second half of FY2020, Non-executive Directors were available to perform additional functions as part of the Company's COVID-19 response plan.

For FY2021, 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 programme to assist them in becoming familiar with the Company, its managers and its business following their appointment. The induction programme involves, among other things, meetings with members of the Board and the Executive Team and briefings on the Company's operations and relevant business matters.

Directors may, with the approval of the Chairman, 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 the Executive Team 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: Act ethically and responsibly

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 (babybunting.com.au/investor).

Whistleblower Protection Policy

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

Anti-Bribery and Corruption Policy

During the year, the Company adopted an Anti-Bribery and Corruption Policy. A copy of the policy is available on Baby Bunting's corporate website (babybunting.com.au/investor).

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:

- **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.

Principle 4: Safeguard integrity in financial 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 three Non-executive Directors:

Position	Director
Chairman	Gary Levin
Members	Melanie Wilson Gary Kent

Details of the qualifications and experience of Committee members are set out on pages 18 and 19.

The number of meetings of the Committee and attendances by members during the reporting period are set out on page 41 of the Directors' Report.

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 Chairman of the Committee is not to be the Chairman 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).

The Committee charter was reviewed in November 2019. Following the review, changes were made to simplify and consolidate a number of the specific responsibilities allocated to the Committee. However, the substance of the Committee's responsibilities in the charter remains the same.

CEO and CFO Declarations

The Board, before it approved the Company's financial statements for the half year ended 29 December 2019 and the full year ended 28 June 2020, received from the CEO and Managing Director and the Chief Financial Officer a declaration that, in their opinion, 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.

Auditor's attendance at the AGM

A representative of the Company's external auditor will attend the Company's annual general meetings. The Company's annual general meeting will be held on 6 October 2020.

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 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.

During the year, the Continuous Disclosure Policy was reviewed and updated. The key changes were to expand the list of Disclosure Officers to include the Group Legal Counsel (along with the CEO & Managing Director and Chief Financial Officer) and to clarify the authority of the Disclosure Officers to make routine (non-market sensitive) announcements without Board approval.

Principle 6: Respect the rights of security holders

The Company's website

The Company's corporate website (babybunting.com.au/investor) 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 website. The Company's website also contains information about it, including media releases, key policies and the charters of the Board committees.

In addition, from time to time, the Company conducts ad-hoc briefings with institutional and large private 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 28 June 2020 will be held on 6 October 2020.

In previous years, the annual general meeting has been held in either Melbourne or Sydney. This year, the annual general meeting will be held virtually. This change will provide more shareholders an opportunity to attend and participate in the meeting.

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 41 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 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 CEO and Managing Director 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";
- where appropriate, having controls, policies and procedures to manage certain specific business risks – eg an insurance programme, 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 have been introduced to identify, assess, monitor and review the Company's key risks and to document and monitor the Company's other risks. In addition, regular processes have been introduced involving the senior executives and other Team Members to help identify, assess, monitor and review the Company's key 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.

During the year, the Committee considered management's assessment of the Company's key risks and the risk treatment plans in place to assist in mitigating those risks. In the second half of the year, as management responded to the COVID-19 pandemic, the COVID-19 Response Committee (established as a committee of the Board), reviewed the business risks identified by management and the response plans implemented.

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 CEO and Managing Director, and the Audit and Risk Committee.

Economic, environmental and social sustainability risks

Economic sustainability risks are risks to the Company's ability to continue operating at a particular level of economic production over the long term. Environmental sustainability risks are risks to the Company's ability to continue to operate in a manner that does not compromise the health of the ecosystems in which it operates over the long term. Social sustainability risks are risks to the Company's ability to continue operating in a manner that meets accepted social norms and needs over the long term.

Having regard to the definition in the ASX Principles and Recommendations, the Company understands "material exposure" to mean a real possibility that the risk in question could substantively impact the Company's ability to create or preserve value for shareholders over the short, medium or long term. This is a broad and, in some sense, imprecise definition. Nevertheless, the Company considers that it does not, at this time, have a material exposure to environmental or social sustainability risks.

This year the Company has published its first Modern Slavery Statement. 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 (babybunting.com.au/investor).

The Company is exposed to a number of economic and operating risks, details of which are included in the Directors' Report on pages 37 and 39. These economic and operating 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.

Economic, environmental and social sustainability risks are likely to change over time. For example, significant increases in the rate of disruption and innovation in online retail and distribution networks, combined with the entry of significant and well-resourced competitors in the Australian baby goods market could result in a change to the extent of the Company's exposure to economic sustainability risks. Accordingly, the Company will continue to consider potential sustainability risks as part of its risk management framework and strategy development.

Principle 8: Remunerate fairly and responsibly

Remuneration – Remuneration and Nomination Committee

The Board has established the Remuneration and Nomination Committee with specific responsibility for remuneration matters. The Committee comprises the following three Non-executive Directors:

Position	Director
Chairman	Melanie Wilson
Members	Ian Cornell Donna Player

Details of the Committee are contained on page 22 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 41 of the Directors' Report.

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.

Securities Trading Policy and hedging

The Company's Securities Trading Policy provides that persons subject to that policy (including Directors and Executive Team Members) must not engage in transactions designed to hedge their exposure to the Company's shares.

directors' report

The Directors of Baby Bunting Group Limited (the Company or Baby Bunting) submit the financial report of the Company and its controlled entities ("the consolidated entity") for the financial year ended 28 June 2020.

1. Principal activities

During the financial period, the principal activity of the Company 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.

The Company'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 car seat hire services.

2. Operating and financial review

2.1 The Company's business model

The Company's business model centres around the sale of private label and third party produced and branded baby goods through its store network and digital channel.

Baby Bunting's private label products include products sold under the "4baby" and "Bilbi" brands. Exclusive products are products sourced by the Company for sale on an exclusive basis (so that those products can only be purchased in Australia 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 is an expanding part of Baby Bunting's business model. The Company offers car seat installation services at all of its stores throughout Australia. A car seat hire service is also available at selected stores around Australia.

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 baby goods retailer with a multi-state presence in Australia. Its industry position and continued growth has enabled the Company to invest in its people, technology, brand, inventory levels, prices and customer experience.
Convenient network of stores and a leading digital channel	The Company currently operates 56 stores across Australia. The Company's website, babybunting.com.au, continues to be Australia's leading specialty baby goods website as measured by number of visits. The Company is focused on delivering customers the best possible retail experience across all channels, in store, online or on mobile.
Customer centric team culture	Baby Bunting has a dedicated team of well trained and knowledgeable staff to service customers' individual needs. Insights gained from customer preferences are enabling Baby Bunting to tailor its offering to focus on the steps in the customer journey of first time parents.
Consistent retail format	Baby Bunting is focused on providing customers with a consistent retail experience across its network. The Company'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 two 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 Company typically operates a smaller store format of approximately 1,000 to 1,200 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 all stores with parcel pick-up facilities allowing for easy loading of bulky items into customers' vehicles as well as enabling car seat installation services.

Drivers of competitive advantage	Comment
Widest product offering, in-stock and available	Baby Bunting offers what it believes to be the widest range of products, with over 6,000 products available. Through its store network and approximately 10,000 square metre Distribution Centre and through the use of interstate third party logistics, Baby Bunting aims to have its product range in-stock and available at the time of the customer's purchase. In FY2021, Baby Bunting will relocate its Distribution Centre to a new 22,000 square metre facility in Dandenong South. This expanded facility will enable the Company to continue to improve the flow of stock from suppliers through to stores and consumers.
Competitively priced	Baby Bunting's approach to pricing is centred on offering customers value every day, every visit. Baby Bunting's "Our Price Promise" means that if a customer finds a lower price at a competitor (including GST and delivery charges) on an identical in-stock product, Baby Bunting will beat it by 5%. Also, Baby Bunting's range of private label products (sold under the brand 4baby and Bilbi) are sold at entry level prices across a number of categories. Baby Bunting has a "Best Buy" range, with everyday low prices. The Best Buy range includes a core range of car seats.
Comprehensive range of ancillary services	Across its entire store network, Baby Bunting provides additional services to its customers, including "click & collect" services, lay-by, consumer payment services (including Afterpay, zipMoney and zipPay), parenting rooms which include baby weigh scales, and an in-store/ online gift registry. Car seat installation services are provided (under the Baby On Board brand) at all Baby Bunting stores. Car seat hire services are also available at selected stores.
Cost effective marketing	The Company considers that its most successful marketing tool is word of mouth. This is a critical factor in allowing the Company to limit its marketing expenditure to under 2% of sales. Baby Bunting's marketing is further supported by traditional channels (regional TV, print media, catalogue and radio), online (email, search and digital) as well as social media. Baby Bunting also participates actively in baby expos. Social media channels are also an important part of the Company's marketing strategies.

2.2 Store network

The Company currently operates a network of 56 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.

2.3 People

At the end of the financial year, the Company employed 1,279 employees throughout Australia with the majority employed at the Company's stores, and others located at the Company's Store Support Office and Distribution Centre at Dandenong South (Vic).

2.4 Review of the Company's operations

During the financial year, the Company continued to implement its strategy of growth from existing stores and its online store as well as growing its network of stores.

Key operational achievements for the Company in FY2020 included:

- finishing the year with a Net Promoter Score at 81;
- being named Large Format Retailer of the Year in 2019 by the Large Format Retail Association;
- opening three new stores, being Wetherill Park and Casula, both in New South Wales, and Baby Bunting's second shopping centre format store at Doncaster Westfield (Vic);
- continuing to expand the range of private label and exclusive products – together these categories made up 36.5% of sales. This is a demonstration of the work undertaken by Baby Bunting's merchandise team in building and enhancing relationships with key suppliers. A new private label for softgoods, known as "Bilbi", was also launched during the year;

- successfully deploying a new demand planning and replenishment system into all stores to improve availability of stock, reduce excess inventory and reduce administrative effort. The second stage of deploying the system into the Distribution Centre will be completed in the first half of FY2021;
- launching a new modern brand across the Baby Bunting store network;
- embedding the car seat installation businesses acquired in late FY2019 (trading under the name Baby On Board) and expanding the coverage of installation services across all Australian Baby Bunting stores, including capsule hire; and
- establishing an additional online fulfilment hub at Casula (NSW), joining the Hobart (Tas) and Cannington (WA) fulfilment hubs. These hubs improve the speed of fulfilment of online orders. In addition, online fulfilment was enabled at selected stores around the Australian store network, which helped to serve customers in periods of very high demand occurring during the initial stages of the COVID-19 pandemic.

The COVID-19 pandemic bought about a number of changes to the Company's operations in the second half of the financial year, including:

- introducing additional health and safety measures into stores and other operations, including physical distancing, customer number management in stores and expanded cleaning regimes as well as the introduction of contactless click & collect;
- changing work practices in the Distribution Centre, including introducing physically segregated shifts and increased physical distancing measures;
- moving all Store Support Office team members to remote working environments.

The Company also introduced a paid COVID-19 leave policy, to provide team members who were unable to work due to self-isolation measures or the unanticipated closure of schools or childcare with paid leave. This policy provides paid leave to cover an affected team member for up to two weeks. The policy applies to full and part-time employees and casual employees.

During the financial year, there was minimal impact in relation to the Company's supply chain, with some short term delays experienced during March and April. Supplies of some consumables, such as nappies and baby wipes were more affected, with temporary shortages experienced in the second half.

Refer to the Chairman and CEO's Report on page 7 of this Annual Report for more information on the Company's operations during the 2020 financial year.

2.5 Review of the Company's financial performance

The full year statutory results for the 52 week period ended 28 June 2020 (FY19: 53 week period ended 30 June 2019) are summarised below:

- Total sales up 10.1% to $405.2 million, with comparable store sales growth of 4.9% for the year and 10.5% in the second half. Comparable store sales growth from bricks and mortar stores was 2.5% for the year and 7.6% in the second half;
- Gross profit of $146.9 million up 14.3%;
- Statutory net profit after tax (NPAT) of $10.0 million, a decrease of 14.3% on the prior year;
- Statutory basic earnings per share (EPS) of 7.8 cents; and
- Net cash of $13.3 million (versus net cash of $2.7 million at the end of FY2019).

In relation to the 2020 and 2019 financial years, the underlying operating results (pro forma earnings measures) are best demonstrated with the following exclusions or adjustments:

- non-cash impact of employee equity incentive expenses: these are non-cash expenses whose 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 for business review, improvement, transformation and brand modernisation;
- brand modernisation project: this project included a non-cash impairment of old store branding assets which are in the process of being replaced;
- impairment of digital assets: the impairment of the carrying value of the Company's investment in its digital commerce technologies; 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.

On a pro forma basis, the FY2020 financial results were:

- pro forma earnings before interest, tax, depreciation and amortisation (EBITDA) was $33.7 million, up 24.1% on the prior corresponding period;
- pro forma gross margin was 36.2%;
- pro forma NPAT of $19.3 million, up 34.1% on the prior corresponding period;
- pro forma costs of doing business (CODB) (excluding the impact of AASB 16 lease accounting) were $113.2 million or 27.9% of sales, an increase of 40 basis points on the prior corresponding period (CODB of 27.5% of sales in FY2019).

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 statutory 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
EBITDA	Earnings before interest, tax, depreciation and amortisation expenses. Eliminates non-cash charges for depreciation and amortisation.
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 CEO and Managing Director assesses the performance of the only operating segment (Australia) based on a measure of Operating EBIT.

Pro forma financial results

Pro forma financial results have been calculated to exclude the non-cash impact of employee equity incentive expenses, significant transformation project expenses, and the impairment of digital assets and the write-off of old branding assets. This has been done to more clearly represent the consolidated entity's underlying earnings.

Year ended 28 June 2020 $'000	Sales	NPAT
Statutory results	**405,173**	**9,986**
Employee equity incentive expenses[1,2]	–	2,630
Digital assets writedown[3]	–	3,215
Branding assets writedown[4]	–	2,610
Transformation project expenses[5,6,7]	–	3,988
Tax impact from pro forma adjustments	–	(3,138)
Pro forma results	**405,173**	**19,291**

1. Expense includes the non-cash cost amortisation of performance rights (LTI) on issue in the current reporting period ($1.978 million).
2. The Company issued 185,134 shares (284 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares ($0.652 million).
3. The Company recognised a non-cash impairment of $3.215 million to the carrying value of its investment in digital commerce technology assets. This arose from the decision (in May 2020) to move away from a monolithic e-commerce architecture to a headless digital architecture structure. This new structure will enable Baby Bunting to leverage best of breed applications to deliver a world class customer experience through its digital channels.
4. During the year the Company introduced its new corporate branding, our first major brand change in the Company's 40 year history. As a result of this change, the Company recognised a non-cash impairment of $2.610 million to the carrying value of its old corporate branding.
5. The Company is currently undertaking a process of assessment and when necessary, replacement of its core information and merchandising technology systems. In FY20 the Company incurred ($1.266 million) non-capital costs associated with the implementation of a merchandise forecasting and replenishment system, order fulfilment systems and assessment of digital technology assets. The Company's review of core systems will continue through FY21.

6. The Company incurred ($0.587 million) costs in relation to scoping and building a new loyalty program aimed at increasing engagement and lifetime spend of its customers. After further completion works, the new loyalty program is expected to be launched in FY21.
7. Other transformation project expenses ($2.135 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.160 million) which is expected to be completed in FY21, and project management and establishment costs ($1.456 million) to deliver the transformation projects. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems into the business are significant, but one-off in nature and not related to the operation or financial performance of the business on a day-to-day basis.

The following table reconciles the statutory to pro forma financial results for the year ended 30 June 2019 (noting that this financial information has not been audited in accordance with Australian Auditing Standards):

Year ended 30 June 2019 $'000 Restated[1]	Sales	NPAT
Statutory results	**368,006**	**11,646**
Employee equity expenses[2,3]	–	2,227
Impact of week 53[4]	(5,674)	93
Acquisition related expenses[5]	–	248
Project related expenses[6,7,8]	–	540
Tax impact from pro forma adjustments	–	(366)
Pro forma results	**362,332**	**14,388**

1. AASB 16 *Leases*. Refer to Note 2(x) in the Financial Report for the year ended 28 June 2020. The results have been restated to reflect the full retrospective adoption of new lease accounting standards. The impact was to reduce NPAT by $0.761 million.
2. Expense reflects the cost amortisation of performance rights (LTI) granted and outstanding in the current reporting period.
3. The Company issued 163,944 shares (297 shares per eligible employee) under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $750 worth of shares.
4. FY19 was a 53 week retail financial year. Week 53 trading sales and expenses has been excluded to enable comparison to the FY20 full year financial period (52 weeks) and prior 52 week financial periods.
5. The Company acquired four car seat installation businesses in FY19 – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. The costs identified relate to due diligence costs and integration costs of the acquisitions (but not the acquisition consideration) which were finalised during the last quarter of FY19.
6. The Company undertook a process of assessment and, where necessary, replacement of its core information and merchandising technology systems. The non-capital costs of external consultants associated with running the selection and planning for the integration of new systems into the business are significant, but one-off in nature and not related to the operation or financial performance of the business on a day-to-day basis.
7. The Company receives over 1.5 million phone calls directly to its stores each year. A business review and improvement project was undertaken during FY19 for the purpose of better managing those calls and to improve customer service within stores. Costs were incurred with external consultants in relation to this project.
8. In FY19 costs were incurred in relation to the Branding project.

Revenue

The FY2020 sales for the year ended 28 June 2020 of $405.2 million represented an increase of 11.8% on FY2019 (on a 52 week basis). This sales growth was achieved through:

- growth from existing stores;
- growth in online sales;
- growth from the opening of three new stores during FY2020;
- the annualising benefit of six stores opened in FY2019, trading for a full financial year in FY2020.

Comparable store sales growth for the year was 4.9% up on 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 FY2020 were the three stores opened in FY2020 and the six stores opened in FY2019.

Sales from private label and exclusive products grew by 47.9% on the prior year, and were 36.5% of total sales in FY2020, up from 27.6% in FY2019. This growth has come 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). In addition, Baby Bunting has expanded the products sold under its "4baby" private label as well as introducing a new private label for soft goods during the year "Bilbi".

Online sales continued to see strong annual growth. Total online sales (including click & collect) grew 39.1% on the prior financial year and click & collect sales grew 63.8%. Online sales now represent 14.5% of total sales, up from 11.8% in FY2019. Baby Bunting's online channel and store networks are complementary. Online sales in a market catchment have consistently increased following the establishment of a Baby Bunting store in that area.

Expenses

Pro forma costs of doing business (CODB) expenses (excluding the impact of AASB 16 lease accounting) as a percentage of sales increased 40 basis points to be 27.9% of sales (27.5% of sales in FY2019). In FY2020, pro forma CODB expenses were $113.2 million, up 13.7% on the prior year pro forma CODB expenses of $99.5 million. The increase in business expenses was driven by:

- six stores opened in FY2019 trading for a full financial year in FY2020;
- three new stores opened in FY2020;
- the continued investment in the Support Office team, business processes and business systems to support the expanding store network and to improve the customer experience both in stores and online. Ensuring the business is appropriately sized for future growth continues to be a priority;
- costs associated with COVID-19 of $0.5 million were incurred in the second half of FY2020 arising from increased hygiene routines, customer communications, additional cleaning and personal protective equipment.

2.6 Review of the Company's financial position

The Company finished the financial year in a net cash position of $13.3 million, a change of $10.6 million on the prior year net cash position of $2.7 million. This movement was driven by $49.8 million of cash generated from operations less the following significant cash outflows:

- payment of $11.7 million in dividends, relating to the FY2019 final dividend of $6.5 million (paid on 13 September 2019) and the FY2019 interim dividend of $5.3 million (paid on 13 March 2020);
- lease payments of $19.2 million in relation to the Company's retail store network, distribution centre, material handling equipment and motor vehicles for area management;
- capital expenditure of $8.3 million in FY2020, including $1.3 million in branding assets and $1.1 million investment in core systems; and
- cash outflows of $3.1 million relating to debt repayments.

Maintaining appropriate inventory levels to fulfil customer needs continues to be a key focus of the business. In FY2020, inventory decreased by $3.1 million to be $65.1 million at the end of FY2020. The decrease was due to significant demand in the last two months of the financial year which resulted in the Company finishing the year being around $4 million below the expected finishing position for inventory. The three stores that opened in FY2020 added approximately $2.4 million to the inventory total.

Dividends

The Board has determined to pay a final dividend of 6.4 cents per share fully franked. Together with the interim dividend of 4.1 cents per share, the total dividend to be paid in respect of FY2020 is 10.5 cents per share, equivalent to approximately 70% of the Company's FY2020 pro forma NPAT. The dividend payment date for the final dividend is 11 September 2020.

Impairment of digital commerce technologies

During the year, the Company recognised a non-cash impairment to the carrying value of its investment in digital commerce technologies of $3.2 million. This arose from the decision made in May 2020 to move away from a monolithic e-commerce architecture to a headless e-commerce architecture.

During the course of FY2018 and FY2019, significant investments were made in a technology for a new website platform. This platform was launched in July 2019. The project experienced technical and stability issues which impacted the customer experience and constrained online sales growth for a period. In November 2019, the decision was made to roll-back to the former website platform to seek to remediate the issues with the new platform. Due to the extent of the issues associated with the platform the decision was made to discontinue further investments in the platform and to move to a headless e-commerce architecture.

Expansion of bank facilities

Shortly after the conclusion of the financial year, the Company expanded its banking facility provided by the National Australia Bank. The existing facility consisted of a $50 million Corporate Market Loan facility and a $8 million bank guarantee facility. The Corporate Market Loan facility has been increased to $70 million. The facility matures on 31 July 2022 (unchanged). The additional facility was taken out to allow for greater capital flexibility given the Company's significant program of business transformation and investments projects as well as potential uncertainty associated with the ongoing impact of the COVID-19 pandemic.

3. Business strategies and future developments

The Company'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.

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 marketing and loyalty continue to be made to increase the utilisation of marketing automation and the Customer Relationship Management (CRM) system. During the year, digital marketing initiatives were expanded and more personalised electronic marketing campaigns were introduced. Additionally, further investments have been made in applications that will enable a better understanding of customer needs, through enhanced search functionality and product recommendations. These applications are expected to enhance customer experience online and ultimately to improve conversion rates.

Continually improving online fulfilment is a key part of this strategy. Customers can transact online and have goods delivered directly or obtain the goods via click & collect, including contactless click & collect introduced during the second half of the year.

The Company now has three store-based fulfilment hubs and has enabled store-based fulfilment of online orders at a number of other stores. These enable online orders to be fulfilled from selected stores supporting the long-term target of being able to fulfil 90% of online metro orders with a same day delivery service.

Shortly after the conclusion of the financial year, the Company launched deliveries to New Zealand consumers through its website. Consideration will be given to the learnings from this launch as part of an assessment with regards to the establishment of a New Zealand store network.

The Company has developed a digital roadmap to facilitate the migration from its current e-commerce site in the next 12 months. The Company intends to move to a headless e-commerce architecture, which will enable Baby Bunting to leverage best of breed applications to deliver a world class customer experience through the digital channel.

3.2 Investment 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. Customers have the opportunity to give feedback via a Net Promoter Score (NPS) following each transaction. At the end of the year, NPS was 81.
- performing targeted and effective marketing campaigns. In conjunction with implementing a CRM system, the Company has also introduced marketing automation software. This has assisted to create new personalised marketing programs for customers, having regard to customer preferences and product affinities, all leading to improvements in customer experience and engagement with the brand.
- leveraging the store network to grow the services offered to customers. In FY2020, Baby Bunting's national car seat installation business has been consolidated under a single brand – Baby On Board. The Company has also recently commenced car seat hire services. Over time, the Company intends to expand into more services for customers.

Growth from existing stores

The Company'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 Company's store network includes a significant proportion of "immature" stores, with 25% of stores less than three years old.

The Company's click & collect service is a key feature and click & collect sales grew 63.8% during the year. Click & collect sales are fulfilled in store, providing very convenient fulfilment times for customers.

Store network plan

Growing market share through the roll out of new stores is a key part of the Company's growth strategy.

The Company has revised its store network plan. The Company is now looking to continue to grow its network of stores to over 100 stores (an increase from its previous network plan of over 80 stores). The Company plans to open four to eight new stores per year.

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 site factors, 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 had to anticipated changes in future consumer behaviour and retail trends. Some parts of the Australian retail market have experienced significant challenges because of changes to the way consumers shop. Traditionally, Baby Bunting's bricks and mortar stores and its online store have been complementary. That is, online sales in a catchment without a store, increase following the opening of a Baby Bunting store in that same catchment.

Baby Bunting has developed three store formats, being its large format destination store model, its regional store model and the shopping centre store model. In the future, the Company may also consider store formats that enable it to meet the needs of parents in areas such as CBD and inner-city locations.

During the financial year ahead, Baby Bunting will open new stores at Knox Westfield (Vic), Castle Towers (NSW) and Belconnen (ACT) and expects to open a total of between 4 and 6 new stores in that year.

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 Company'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 Company also has an expanding range of insights about baby goods consumers.

In the longer term, Baby Bunting may look to explore opportunities to grow its market share through entering new geographies. Opportunities might also exist to apply Baby Bunting's skills in adjacent retail categories, where the ability to leverage existing insights into the current customers 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 Company improved its pro forma EBITDA margin from 7.5% in FY2019 to 8.3%. Full year pro forma gross margin was 36.2% an improvement of 120 basis points from the prior year. The pro forma cost of doing business increased by 40 basis points in FY2020.

A key driver to grow margin improvement is the growth in private label and exclusive product offerings. The Company offers private label products in strollers, change tables, manchester, babywear, portacots, plastics, toys, consumables and highchair categories. While gross profit margin on private label and exclusive products varies by product, the Company believes that increased sales in these categories will continue to facilitate further margin improvement in future periods.

During the year, private label and exclusive products grew to represent 36.5% of sales, an increase of 47.9% over the previous year. This was largely driven by the support of key suppliers expanding the range of their products sold exclusively through Baby Bunting.

The Company also launched an additional private label brand in soft goods, known as "Bilbi". Plans are underway to launch private label brands in hard goods during the next financial year.

Investments were made in FY2020 in deploying a merchandise demand planning and replenishment system into all stores. In FY2021, work will continue on a new merchandise financial forecasting system. These projects are transforming the way in which the Company forecasts, plans merchandise and replenishes stores. This is expected to deliver significant benefits for the business through improved availability of stock, reduced excess inventory and reduced administrative effort.

Another element of the Company's strategy for profit margin improvement is to invest further in the Company's Distribution Centre and supply chain. The Company has committed to a 12 year lease for a new 22,000 square metre distribution centre, located approximately 1.5 kilometres from its current Distribution Centre in Dandenong South.

It is expected this new facility will be in operation in the second half of FY2021. The Store Support Office will also relocate to the new facilities. By expanding the Distribution Centre, Baby Bunting will be able to support its growing store network and online store and also improve the efficiency and flow of product from source to customer.

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 Company'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 Company's interests.

4. Key risks and uncertainties

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

4.1 COVID-19 pandemic

During the second half of the financial year, the emergence of the COVID-19 pandemic has given rise to significant uncertainties for the Company and its operations. Australian governments introduced extensive public health measures to meet the dangers posed by the COVID-19 pandemic. While the public health danger persists, the potential for ongoing public health measures, or the introduction of additional public health measures, remains.

The COVID-19 pandemic raises issues across a number of aspects of the Company's operations. To date these risks have been addressed through business continuity planning and rapid operational changes. In the absence of a vaccine or effective treatment for COVID-19, uncertainty remains about the ongoing effects of the COVID-19 pandemic on the Company's operations over the coming periods. The risk exists that public health restrictions could be introduced which significantly curtail the Company's ability to operate its stores in an area or a number of areas. If these restrictions affect a number of the Company's stores and/or extend for a significant period of time, the Company's sales could reduce and its costs of operating could increase, with the effect that its financial performance could be adversely affected.

Specific matters and risks that arose during the last financial year include:

- **health and safety risks for team members and customers**: Baby Bunting operates a network of stores throughout Australia. The risk exists for the transmission of COVID-19 infection from people interacting in stores. To address this risk, operational requirements have been introduced into stores, including expanded cleaning regimes, hand sanitising, physical distancing measures, the temporary closure of some features of stores (eg parents rooms) and encouraging cash-less payments.

  Given the large format of the Company's stores, all stores were able to continue to operate during FY2020 within the scope of the social distancing requirements imposed by Australian governments. Nevertheless, limits on customer numbers within stores (and within parts of stores) were introduced.

  The risk exists that a Baby Bunting store may need to close temporarily if one or more team members test positive to COVID-19. The Company has developed plans to respond to that event and believes it can continue to provide goods and services to customers in the affected area through other nearby stores or its online store.
- **operational changes**: The Company introduced additional measures to ensure parents and parents-to-be could continue to obtain the essential products they require without coming into stores. Contactless click & collect enabled customers to collect goods from stores with minimal contact with team members. The Helping Hand service was introduced to provide store-based telephone assisted shopping for customers. Baby Bunting's online store also ensured customers could continue to purchase goods. To support the ongoing operations of the online store, Baby Bunting expanded its online fulfilment capacity (through expanding the number of fulfilment hubs and stores) and it also temporarily introduced additional shifts in its online team to meet increased demand.
- **risks associated with the supply chain**: Events like the COVID-19 pandemic have the potential to adversely affect Baby Bunting's supply chains and disrupt the supply of stock from offshore suppliers. To manage this risk, Baby Bunting seeks to hold stock at its Distribution Centre as well at third party logistics depots around Australia. Ultimately, during the initial phase of the COVID-19 pandemic there was minimal impact on supply of most of Baby Bunting's products, other than in certain categories of consumables (eg nappies, baby wipes) that were affected by panic-buying.

  The Company operates a single Distribution Centre at Dandenong South. Contingency plans have been developed to address the risk of a localised government lock-down (or some other COVID-19 event) affecting operations at the Distribution Centre, which include altering supply chains and re-directing stock. However, if the Distribution Centre (which includes the principal part of the Company's online fulfilment operations) is unable to operate for an extended period of time, and alternative arrangements could not be implemented, that event would have a material adverse effect on the Company's financial performance.

Risks also exist in relation to outbound order fulfiment. Online orders are delivered to customers via parcel and courier service providers. Disruptions to those services can cause delays in delivery times of goods to consumers. To the extent that the delays are extensive or ongoing, the experience for consumers will be adversely affected. Accordingly, there is a risk that customer sentiment and the Company's financial performance could be adversely affected.

- **external economic risks**: The public health measures have had a significant effect on many parts of the Australian community. While governments have provided economic support and stimulus measures, the risk exists that retail conditions and the general economic environment are substantially reduced throughout FY2021 and beyond. A deterioration in consumer confidence generally may cause consumers to reduce the size or extent of purchases with the Company, which could have an adverse effect on sales and the Company's financial performance.

Refer to page 16 of the Annual Report for more information on the Company's response to the COVID-19 pandemic.

4.2 Other key risks

The Company has a structured risk management framework and internal control systems in place to manage material risks (see page 27 for further information on the Company's risk management framework). In addition to the risks associated with the COVID-19 pandemic noted above, some of the other key risks and uncertainties that may have an effect on the Company's ability to execute its business strategies and the Company's future growth prospects and how the Company manages these risks are set out below.

Competitive and digital disruption risks

The Company faces competition from specialty retailers as well as department stores, discount department stores and online only retailers. International online retailers and market places 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 Company. In addition, direct to consumer operators (without a physical store network) compete with the Company 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 Company seeks to address competitive risks by focusing on providing customers with low prices, every day. In addition, the Company 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.

External economic risks

Although the purchase of baby goods may be considered less discretionary compared with other consumer goods categories, Baby Bunting's performance is sensitive to the current state of, and future changes in, the retail environment and general economic conditions in Australia. As noted above in relation to COVID-19 risks, a deterioration in consumer confidence generally may cause consumers to reduce the size or extent of purchases with the Company, which could have an adverse effect on sales and the Company's financial performance.

Property and operational risks

The Company's new store roll-out strategy depends upon securing properties that meet the Company's rigorous selection criteria, at financially viable rents. A failure to secure appropriate sites could impact the Company's financial performance and position. As the Company's stores are leased the ability to continue in a store is subject to negotiation at the end of each lease term. The Company actively manages its property portfolio to ensure appropriate sites continue to be available for its stores.

The Company'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 Company's financial performance and customers' experience of shopping with Baby Bunting. The Company continues to focus on logistics and technology initiatives to ensure that this risk is managed appropriately, these include the use of third party logistics facilities to carry inventory outside of the Company's Distribution Centre.

An element of the Company's strategy involves growing its private label and exclusive product offerings. The ability of the Company to continue to offer exclusive products depends upon the relationships it has with suppliers. Any deterioration of those relationships could adversely impact the Company's ability to supply exclusive products or, more generally, to successfully provide customers with a wide range of products at competitive prices. The Company continues to invest in its merchandising team to continue to ensure that it is appropriately managing relationships with its suppliers.

Compliance risks

Baby Bunting is subject to government laws and regulations, including competition and consumer laws and trade, taxation and workplace health and safety laws.

Many of the products sold in Baby Bunting's stores or online must comply with Australian mandatory product safety standards. In addition, products Baby Bunting sells must comply with general product safety requirements under Australian law and also meet the expectations of our consumers. Failure to do so may require the Company to, among other things, undertake a recall of products or other actions. This may adversely affect the Company's reputation and performance and result in significant financial penalties. The Company 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 Company's quality assurance and compliance team continue to ensure that product compliance remains a key focus. The Company also engages an external compliance advisory company that performs periodic audits of product compliance as well as providing training and advice on particular compliance matters.

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 Company's reputation and performance. The Company 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 Company's future performance depends to a significant degree on its key personnel, and its ability to attract and retain experienced and high performing personnel. The Company'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 Company continues to make investments in training and development to further expand the skills of the Company's employees.

Technology and information risks

In common with other retailers, the Company faces a range of cyber risks. This is a broad concept and encompasses a variety of risks that use or impact computer systems and that can result in unauthorised access or disclosure of information held by the Company (including the personal information of our customers), the commission of frauds or thefts, or the disruption of normal business operations.

The Company 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.

The Company has a continuing focus on IT systems and security, with the aim of ensuring that the IT systems are available to support the Company's operations and that steps are being taken to protect against adverse IT and cyber related events. IT infrastructure and data assets have been migrated to an external data centre and the Company remains focused on constantly improving its ability to prepare and respond to a cyber attack or other adverse event.

The Company also has systems and processes in place designed to appropriately use and secure our customers' personal information. Unauthorised disclosure of, or unauthorised access to, personal information under the control of the Company could have an adverse effect on the Company's reputation and ultimately the Company's financial performance.

Business transformation risks

The Company has a plan to continue making investments in new technology systems, including its e-commerce platform, some core system enhancements and other technology projects. The Company is also undertaking a range of business transformation projects.

A failure to implement technology changes effectively or to manage and complete projects successfully could have an adverse effect on the Company's financial performance where new technology or projects cost more, take more time to implement and/or fail to achieve anticipated business benefits. In addition, a failure in the Company's technology systems could have an adverse impact on consumers' experience with Baby Bunting. The Company seeks to manage this risk through appropriate project management and resourcing.

5. Significant changes in the state of affairs in FY2020

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 28 June 2020, 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 Company's operations in future financial years;
- the results of those operations in future financial years; or
- the Company'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 30 June 2019 (5.1 cents per share fully franked)	6,448
Interim dividend in respect of the half year ended 29 December 2019 (4.1 cents per share fully franked)	5,260

The Board has determined to pay a final dividend in respect of the financial year ended 28 June 2020 of 6.4 cents per share.

This dividend is franked to 100% at the 30% corporate income tax rate. The record date for this final dividend is 28 August 2020 and the dividend payment date is 11 September 2020. The final dividend of 6.4 cents per share, when combined with the interim dividend of 4.1 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 the Company during the financial period and/or up to the date of this Directors' Report:

Director	Position	Date appointed	Date retired
Ian Cornell	Chairman (from 21 November 2016)	1 January 2015	–
Matt Spencer	CEO and Managing Director	23 April 2012*	–
Gary Levin	Non-executive Director	25 August 2014	–
Melanie Wilson	Non-executive Director	15 February 2016	–
Donna Player	Non-executive Director	16 January 2017	–
Gary Kent	Non-executive Director	12 December 2018	–

* Matt Spencer joined the Company in February 2012 as CEO. He was appointed a Director on 23 April 2012.

Details of the qualifications, experience and special responsibilities of each current director are set out on pages 18 and 19 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 28 June 2020 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.

During the financial year, the Board established an additional Board Committee with authority to consider matters in relation to the Company's response to the COVID-19 pandemic. The COVID-19 Response Committee meet on short notice throughout March, April and May 2020 outside of the regular Board meeting schedule. It was part of the governance arrangements put in place to monitor and, where necessary, approve matters in relation to management's response to the COVID-19 pandemic.

	Meetings of directors		Audit and Risk Committee		Remuneration and Nomination Committee		COVID-19 Response Committee	
Director	Attended	Held	Attended	Held	Attended	Held	Attended	Held
Ian Cornell	11	11			5	5	5	5
Matt Spencer	11	11					5	5
Gary Levin	11	11	5	5			5	5
Melanie Wilson	11	11	5	5	5	5	5	5
Donna Player	11	11			5	5	5	5
Gary Kent	11	11	5	5			4	5

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.

10. Directors' relevant interest in shares

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

Director	Ordinary shares	Performance Rights
Ian Cornell	900,000	nil
Matt Spencer	1,365,970	1,650,019
Gary Levin	200,000	nil
Melanie Wilson	20,000	nil
Donna Player	36,000	nil
Gary Kent	20,000	nil

11. Company secretaries

Corey Lewis is the Group Legal Counsel and Company Secretary. He commenced employment with the Company 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 (Honours) and a Bachelor of Arts. He is also a graduate of the Australian Institute of Company Directors.

Darin Hoekman, the Company'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 CEO and Managing Director was the only Director eligible to participate in the Company's long term incentive plan (LTI Plan). Further details of the LTI Plan are set out on pages 49 to 54 of the Remuneration Report. Each performance right entitles the holder to receive one fully paid share in the Company, subject to the satisfaction of the applicable performance conditions.

During the financial year, the Company granted 2,311,000 performance rights under the LTI Plan. In addition, 938,103 performance rights vested and were exercised and 533,740 performance rights were forfeited in accordance with the rules of the LTI Plan. At the end of the year, 2,710,334 EPS Rights provided under the FY2016 to FY2020 grant lapsed as the EPS CAGR performance condition was not met.

All of the performance rights granted during the financial year are subject to performance conditions (see pages 49 to 51 of the Remuneration Report for more details).

Performance right event	Issue price	Number of performance rights
Opening balance (1 July 2019)		8,775,557
Vesting of rights (25 October 2019)	n/a	(938,103)
Grant of rights under the LTI Plan – FY2019 to FY2022 award (25 October 2019)	nil	2,311,000
Forfeiture of rights (22 November 2019)	n/a	(533,740)
Lapse of EPS Rights granted the FY2016 to FY2020 award (28 June 2020)	n/a	(2,710,334)
Closing balance		**6,904,380**

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 44.

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

Under the Company's Constitution, to the fullest extent permitted by law, the Company must indemnify every officer of the Company 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 Company or a related body corporate).

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

The Constitution also allows the Company to enter into and pay premiums on contracts of insurance, insuring any liability incurred by a current or former Director and officer of the Company. The deed of access, indemnity and insurance requires the Company to use its best endeavours to maintain an insurance policy, which insures the Director against liability as a Director and officer of the Company 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 Company 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 Company 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 Company 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 Company

No proceedings have been brought or intervened in on behalf of the Company 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 Company, or to intervene in any proceedings to which the Company is a party.

17. Environmental regulation

The Company 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 Company's operations are subject to any particular and significant environmental regulation in Australia.

18. Non-audit services

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

Details of the amounts paid or payable to the auditor (Ernst & Young) for audit and assurance services ($167,300) (FY2019: $115,500) and for non-audit services ($73,355) (FY2019: $45,100) provided during the year are set out in the Financial Statements (at Note 31). The major element of non-audit services during the year related to taxation services and remuneration advisory services in connection with an executive remuneration review undertaken by the Remuneration & Nomination Committee (see page 45 of the Remuneration Report).

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 59.

20. Rounding of amounts

The Company 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

Ian Cornell

Ian Cornell
Chairman

Melbourne: 14 August 2020

remuneration report

The Remuneration Report sets out remuneration information for the Company's Non-executive Directors and other key management personnel (disclosed executives) for the year ended 28 June 2020.

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	
Ian Cornell	Non-executive Chairman
Gary Levin	Non-executive Director
Melanie Wilson	Non-executive Director
Donna Player	Non-executive Director
Gary Kent	Non-executive Director
Disclosed executives	
Matt Spencer	CEO and Managing Director
Darin Hoekman	Chief Financial Officer

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 babybunting.com.au/investor. 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 41 of the Directors' Report.

3. Key developments during FY2020 and future changes

3.1 Remuneration outcomes for FY2020

FY2016 to FY2020 performance rights

On 25 October 2019, the Company issued a total of 938,103 ordinary shares to eligible participants in the Company's Long Term Incentive Plan upon partial vesting of the TSR Rights that had been provided under the FY2016 to FY2020 grant. These rights vested following satisfaction of the TSR compound annual growth performance hurdle; the compound annual growth rate of the Company's total shareholder return in the period from its 2015 IPO to the end of the 2019 VWAP period (ie 1 July 2019 to 30 September 2019) was 24.3% (including dividends reinvested).

This reflected the significant growth that has been achieved in shareholder returns in the period from the IPO to late 2019.

At the end of the year, the compound annual growth rate of EPS over the period from FY2016 to FY2020 did not achieve the minimum growth rate of 15%, being the level at which vesting can commence. Accordingly, 2,710,334 performance rights lapsed.

See section 5.3.3 below for further details.

Grant of performance rights following the 2019 AGM

Following shareholder approval at the 2019 AGM, the Company granted the CEO & Managing Director, 533,000 performance rights under the FY2019 to FY2022 grant. Approval for the grant was obtained under ASX Listing Rule 10.14. An additional 1,778,000 performance rights were granted on the same terms to seven other executives participating in the Company's Long Term Incentive Plan.

Details of the terms and conditions of this grant are contained in section 5.3.1 below.

Employee Share Plan Gift Offer

The Company conducted its 5th Employee Share Plan Gift Offer in October 2019 and provided over 650 team members $1,000 of Baby Bunting shares. The Company has operated this gift share program for each year since its IPO in 2015. See Section 5.4 below.

3.2 Review of Executive Remuneration

During the 2020 financial year, the Board, acting through the Committee, undertook a review of the Company's executive remuneration practices. This included considering the strategy and principles by which the employees of the Company are remunerated. The Committee considered the mix of fixed remuneration and short – and long-term incentives. The focus of the review was to ensure the Company's remuneration is aligned to shareholders' interests, drives performance and accountability and supports the Company's growth strategy.

The Committee engaged remuneration specialists at Ernst & Young to assist by undertaking remuneration benchmarking exercises and comparing certain elements of the Company's at-risk remuneration with comparable and larger ASX-listed companies. Ernst & Young did not provide any remuneration recommendations.

The Committee has recommended a number of changes which are being implemented to the Company's remuneration practices, including:

- seeking to adjust, over time, the mix of executive remuneration to reduce the proportion of "at-risk" remuneration represented by long term incentives. This will be achieved by gradually reducing the number of rights granted annually to executives participating in the Company's Long Term Incentive Plan;
- reducing, over time, the proportion of performance rights outstanding relative to the Company's total issued capital. During FY2019, the number of rights outstanding was equivalent to approximately 7.5% of the Company's issued capital. At the end of FY2020, the number of rights outstanding reduced to approximately 5.4% of the Company's issued capital[1]. The Board intends to make further grants of performance rights in FY2021 (see below) and in future years. However, the total number of rights provided in those grants will reduce so that the proportion of outstanding rights to issued capital is expected to be around 5%.

The Board's remuneration philosophy continues to favour a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a larger proportion of "at-risk" remuneration. However, with the changes noted above, the proportions are expected to gradually shift over time. Nevertheless, there will continue to be a strong emphasis on "at-risk" remuneration to drive performance that supports and is linked to achieving sustainable growth.

3.3 Other changes to the Company's remuneration practices

The following changes have been made to the Company's remuneration practices:

- **Change to the calculation of EPS for EPS Rights vesting**: The Board has adjusted the way it assesses whether EPS Rights have vested at the end of a relevant performance period. (No EPS Rights have vested during the period of the operation of the Long Term Incentive Plan.)

  For future years, whether an EPS growth hurdle has been met will have regard to the number of shares that are to be newly issued upon vesting of the EPS Rights. This will have the effect of taking into account any dilution impact at the time of vesting. While slightly reducing the number of EPS Rights that would otherwise vest, the Board considers this approach preferable as it reflects the dilution impact to shareholders arising where new shares are issued.

- **Malus and clawback**: Malus and clawback provisions have been incorporated into the terms of the proposed FY2020 to FY2023 grant under the Company's Long Term Incentive Plan. These principles will be included in all future long term incentive awards.
- **No retention rights awarded**: No retention rights were awarded during FY2020. As noted in the 2019 Remuneration Report, the award of retention rights during FY2019 was a one-off event undertaken in response to specific market conditions. It is not intended to be repeated.
- **Changes to the timing of awards**: There was only one grant of performance rights during the year, being the FY2019 to FY2022 grant. Newly hired executives will participate in the Company's Long Term Incentive Plan only when they are in their role at the time the relevant grant is made.
- **Additional Remuneration Report disclosures**: This Remuneration Report contains additional disclosures on the EBIT targets and specific additional targets that applied for the FY2020 short term incentive plan. See section 5.2 below.

1 2,710,334 EPS Rights lapsed at the end of the year as the relevant EPS growth hurdle was not achieved. Whether the remaining 1,525,380 TSR Rights vest will only be known in October 2020 following the conclusion of the 3 month VWAP period ending 30 September 2020.

3.4 Remuneration changes for FY2021

In addition to the developments described above, for the financial year ahead, the Board has made the following determinations:

- **FY2021 STI plan**: the FY2021 short term incentive plan will operate broadly along the same lines as the STI plan in FY2020, noting:
  - the potential payment at "threshold" performance will be increased to 30% of a participant's base remuneration (an increase from 25%); and
  - a cap will be imposed on the maximum amount of STI payments available to an eligible executive; the cap will be 60% of the executive's base remuneration.

  Details of the specific performance criteria for the FY2021 short term incentive plan selected by the Board will be disclosed in the 2021 Remuneration Report.
- **Long term incentive plan – FY2020 to FY2023 grant**: the Board intends to grant the CEO & Managing Director 480,000 performance rights, subject to approval by shareholders at the 2020 AGM. In addition, a further 11 executives will participate in the proposed grant. Generally, the terms of the grant are similar to the grant made last year (the FY2019 to FY2022 grant – see section 5.3.1 below). Half of the rights will be subject to an EPS CAGR performance condition and the other half will be subject to a TSR CAGR performance condition. These performance conditions will be measured over a 3 year period. There will be no retesting.

4. Relationship between remuneration and the Company's performance

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

	2016	2017	2018	2019 Restated[1]	2020
EBITDA (statutory) $'000	15,743	22,138	17,549	46,281	46,119
Net profit after tax (statutory) $'000	8,334	12,247	8,686	11,646	9,986
Net profit after tax (pro forma) $'000	10,627	12,957	9,607	14,388	19,291
Dividends per share – ordinary (cents)	6.3	7.2	5.3	8.4	10.5
Dividends per share – special (cents)	15.0	–	–	–	-
Basic earnings per share (cents) (statutory)	7.0	9.7	6.9	9.2	7.8
Earnings per share (cents) (pro forma)	8.4	10.3	7.6	11.4	15.2

1. The results have been restated to reflect the full retrospective adoption of new lease accounting standards. Refer to Note 2(x) in the Financial Report for the year ended 28 June 2020.

5. Remuneration policy and practices

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 indicators.

For executives, the Board has a philosophy of supporting a smaller proportion of fixed remuneration (relative to comparable ASX companies) and a large proportion of "at-risk" remuneration. A focus for future years is to progressively adjust the overall remuneration mix towards an increased proportion of fixed pay. However, "at-risk" remuneration will continue to represent a significant proportion of an executive's remuneration mix.

5.1 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 base remuneration and superannuation. Base 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).

5.2 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 non-financial 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 participants to become eligible to receive a payment under the STI plans, the Company must achieve certain EBIT growth targets for the financial year (with the result inclusive of payments under the STI plans). The amount of the payment (if any) received depends upon the employee satisfactorily achieving previously agreed key performance criteria and the employee's overall performance for the year meeting the required standard.

For the executives participating in the STI plan, the size of any potential STI payment is determined having regard to achieving year on year pro forma EBIT growth. Accordingly:

- if "threshold" year on year pro forma EBIT growth is not achieved, no STI payment is to be made. This reflects the principle that no significant benefit is to be provided where the Company's financial results do not justify providing any payment and also that there must be a relationship between performance and reward;
- if "threshold" year on year pro forma EBIT growth is achieved, the potential STI payment is up to 25% of the participating executive's base remuneration; and
- if year on year pro forma EBIT growth exceeds "threshold" growth, the size of the potential STI payment increases proportionally and is not limited. This is to encourage and reward participants for extraordinary performance in achieving EBIT growth.

STI outcome for FY2020

For the 2020 financial year, pro forma EBIT growth was 27.6%. This was below the "threshold" growth target level set by the Board. Therefore, no STI payments were awarded under the plan for FY2020.

If the "threshold" EBIT growth target was achieved, the size of each participating executive's actual STI payment would have been determined by applying financial and additional criteria. Achievement of the financial criteria provides a participating executive with 70% of the potential STI payment. Achievement of the remaining 30% is subject to achievement of six specified additional KPIs (each additional KPI represents 5%).

For FY2020, the additional criteria for the disclosed executives were:

Disclosed executives	Additional criteria	Comment
Matt Spencer and Darin Hoekman		
KPI #1	Achievement of a Net Promoter Score improvement and a reduction in the Lost Time Injury Frequency Rate	This was achieved. Net Promoter Score finished the year at 81 and the Lost Time Injury Frequency Rate was reduced by around 50%
KPI #2	Improvements in gross margin	This was not achieved, as the target level of improvement was not reached
KPI #3	Implementation of new customer loyalty scheme	This was not achieved. The new customer loyalty program is expected to occur in FY2021
KPI #4	Employee engagement survey – top quartile results with improvement on last survey	This was not achieved. The employee engagement survey was deferred in FY2020 due to the impact of the COVID-19 pandemic
KPI #5	Successful implementation of merchandise systems project; on track with cross functional process change and engagement	This was achieved
Matt Spencer (alone)		
KPI #6	Development of specific strategic objectives (not disclosed due to commercial sensitivities)	This was achieved
Darin Hoekman (alone)		
KPI #6	Progression of property strategy initiatives (not disclosed due to commercial sensitivities)	This was achieved

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 CEO and Managing Director with any decision to award a payment approved by the Board. In relation to the CEO and Managing Director, the Board assesses the relevant performance criteria and approves any STI payment.

For the disclosed executives, the extent to which the financial and additional financial criteria were achieved and the resulting STI award for the 2020 financial year was:

Disclosed executives	% of financial criteria achieved	% of additional criteria achieved	% of maximum STI awarded	% of STI forfeited
Matt Spencer	0%	50%	0%	100%
Darin Hoekman	0%	50%	0%	100%

STI plan benefits are paid in cash and reflect amounts earned during the financial year and are provided for in the annual financial statements. Any STI plan payments are payable in September.

5.3 Long term incentives

The Long Term Incentive Plan (LTI Plan) is designed to align the interests of 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).

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 2020 financial year, a single grant was made under the LTI Plan and details of that grant are provided at Section 5.3.1.

Information on grants made in previous years that remain outstanding are also contained in this section.

As at 28 June 2020, the number of performance rights outstanding was:

Long Term Incentive Plan grant

Performance rights	**EPS Rights**	**TSR Rights**
FY2019 to FY2022 grant	1,155,500	1,155,500
FY2018 to FY2021 grant	1,252,000	1,252,000
FY2016 to FY2020 grant	–	1,525,380
Retention rights		
Retention rights (FY2021) grant	564,000	

Note: As EPS CAGR for the period FY2016 to FY2020 was below the minimum level for vesting, the EPS Rights lapsed.

5.3.1 FY2019 to FY2022 performance rights grant

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 CEO and Managing Director, the Chief Financial Officer and six other participating executives. The grant to the CEO and Managing Director 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 from a base level of pro forma EPS in FY2019 (being 12.0 cents per share). 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	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). 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.	

5.3.2 FY2018 to FY2021 performance rights grant

During the 2019 financial year, the Board made a grant under the Long Term Incentive Plan for the period FY2018 to FY2021. This grant is referred to as the FY2018 to FY2021 grant.

Under this grant, the Board granted performance rights to the CEO and Managing Director, the Chief Financial Officer and seven other participating executives. The grant to the CEO and Managing Director was approved by shareholders at the Company's 2018 AGM.

Terms and conditions of the FY2018 to FY2021 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 7.6 cents per share. This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 24 June 2018 (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 24 June 2018.	
TSR growth performance condition	Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested). 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 $2.22 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 2018 to 30 September 2018). 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 2021 (inclusive) or such other period as the Board considers appropriate.	
Performance periods	The performance period ends after the conclusion of FY2021. 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 25% EPS CAGR is achieved; and • if the EPS CAGR is within the range of 10% to 25% 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.

5.3.3 FY2016 to FY2020 performance rights grant

At the time of the Company's 2015 IPO, performance rights were granted to executives providing an incentive that would be measured over performance periods ending after the conclusion of FY2020.

These performance rights will be assessed against the EPS growth and TSR growth performance conditions (described below) and in respect of the performance period from FY2016 to the end of FY2020.

Terms and conditions of the FY2016 to FY2020 award

<table>
<tr><td>Performance conditions and performance periods</td><td colspan="2">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.</td></tr>
<tr><td>EPS growth performance condition</td><td colspan="2">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 8.4 cents per share. This base level EPS was calculated by dividing the Company's pro forma NPAT for the financial year ended 26 June 2016 (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 26 June 2016.</td></tr>
<tr><td>TSR growth performance condition</td><td colspan="2">Broadly, TSR is a measure of the increase in the Company's share price (assuming dividends are reinvested).
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 $1.40 (being the price at which shares were issued in the Company's IPO) used as the base level (and with no allowance for the "pre-IPO dividend" paid by the Company at the time of the IPO).
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 (inclusive) or such other period as the Board considers appropriate.</td></tr>
<tr><td rowspan="3">Performance periods</td><td colspan="2">Three separate performance periods apply to the rights:</td></tr>
<tr><td>EPS Rights
• 20% of the EPS Rights were initially assessed against EPS growth for the two year period from the end of FY2016 to the end of FY2018;
• 30% of the EPS Rights will be assessed against EPS growth for the three year period from the end of FY2016 to the end of FY2019; and
• 50% of the EPS Rights will be assessed against EPS growth for the four year period from the end of FY2016 to the end of FY2020.</td><td>TSR Rights
• 20% of the TSR Rights were initially assessed against the TSR growth in the period from the Company's listing on ASX to the period ended 30 September 2018;
• 30% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to the period ending 30 September 2019; and
• 50% of the TSR Rights will be assessed against TSR growth measured in the period from the Company's listing on ASX to the period ending 30 September 2020.</td></tr>
<tr><td colspan="2">If a right does not vest at the end of the first and/or second performance period, it does not lapse but remains available for vesting at the end of the next applicable performance period. If a right has not vested at the end of the third performance period, it will lapse. There is no further retesting after the third performance period.</td></tr>
<tr><td>Vesting schedule</td><td>• 15% of the EPS Rights will vest if the minimum EPS growth hurdle condition of 15% EPS CAGR is achieved over the relevant performance period;
• 100% of the EPS Rights will vest if the EPS growth hurdle of 25% EPS CAGR is achieved over the relevant performance period; and
• if the EPS CAGR is within the range of 15% to 25% EPS CAGR, the number of EPS Rights that will vest will be pro-rated on a straight – line basis.</td><td>• 15% of the TSR Rights will vest if the minimum TSR growth hurdle condition of 15% TSR CAGR is achieved over the relevant performance period;
• 100% of the TSR Rights will vest if the TSR growth hurdle of 25% TSR CAGR is achieved over the relevant performance period; and
• if the TSR CAGR is within the range of 15% to 25% TSR CAGR, the number of TSR Rights that will vest will be pro-rated on a straight – line basis.</td></tr>
</table>

LTI outcomes to date under the FY2016 to FY2020 grant

The 2020 financial year was the final year that the rights have been (or will be) assessed against the relevant performance conditions.

EPS performance rights

The compound annual growth rate in the Company's EPS measured over the period from the end of the 2016 financial year to the end of 2020 financial year was 13.7%. On this basis, none of the third tranche of EPS rights (or the first and second tranches that did not vest in the prior years) can vest. These rights have now lapsed. This result was significantly impacted by the impairment of the carrying value of the Company's investment in its digital commerce technologies.

	Measured performance	Proportion of Rights available for vesting	Proportion of available Rights that vested
	EPS Rights		
First performance period (FY16 to FY18)	The compound annual growth rate of EPS over the period was negative 5.1%	20%	0%
Second performance period (FY16 to FY19)	The compound annual growth rate of EPS over the period was 12.3%	50%	0%
Third performance period (FY16 to FY20)	The compound annual growth rate of EPS over the period was 13.7%	100%	0%

TSR performance rights

After the end of the 2018 financial year, 60% of the participating executives' TSR rights available for vesting for that period vested, as the TSR compound annual growth rate was 20.3%. At the end of the 2019 financial year, over 94% of the participating executives' TSR rights available for vesting for that period vested, as the TSR compound annual growth rate was 24.3%.

	Measured performance	Proportion of Rights available for vesting	Proportion of available Rights that vested
	TSR Rights		
First performance period (IPO to the determination of the 2018 VWAP)	The compound annual growth rate of TSR over the period was 20.3%	20%	60% of the 20%
Second performance period (IPO to the determination of the 2019 VWAP)	The compound annual growth rate of TSR over the period was 24.3%	38%	94.3% of the 38%
Third performance period (IPO to the determination of the 2020 VWAP)	*The 2020 VWAP will be calculated after 30 September 2020*	~53%	*Yet to be determined*

Notes:

- Following the vesting of some of the TSR Rights after the conclusion of the first performance period, 296,697 shares were issued to participating executives on 18 October 2018. After the conclusion of the second performance period, 938,103 shares were issued to participating executives on 25 October 2019,
- The 2020 VWAP is the volume weighted average share price on ASX of the Company's shares (as determined by the Board) in the period from 1 July to 30 September 2020 (inclusive) (or such other period as the Board considers appropriate).

5.3.4 FY2021 retention rights grant (historical)

During the 2019 financial year, the Board made a one-off grant of retention rights to participating eligible executives, including the Chief Financial Officer. There were 580,000 retention rights granted in total. The CEO and Managing Director was not granted retention rights.

The grant that occurred in FY2019 was a one-off and there is no intention that it be repeated.

The grant was made as part of the Board's remuneration strategy to ensure that participating executives continued to have an appropriate incentive to remain with the business under the Company's current remuneration philosophy. It also assists to ensure stability and that executives remain engaged in the business. The Board considers this is critical to the long term success of the organisation.

The terms of the retention rights provide that each right will vest shortly after the conclusion of FY2021. For vesting to occur:

- the participant must remain employed at the time of vesting (and not otherwise be serving out a period of notice in advance of cessation of employment, unless otherwise determined by the Board); and
- the participant's performance evaluation rating in the period up to the assessment of vesting must exceed an acceptable rating.

If the retention rights vest, a participant may elect to exercise the right and receive a fully paid ordinary share. A vested right may be exercised at any time during the two year period following vesting of the right.

5.4 General comments on rights

Calculation of vesting of EPS Rights

The Board has adjusted the way it assesses whether EPS Rights have vested at the end of a relevant performance period. (No EPS Rights have vested during the period of the operation of the Long Term Incentive Plan.) For FY2020 and future years, whether an EPS growth hurdle has been met will have regard to the number of shares that are to be newly issued upon vesting of the EPS Rights. This will have the effect of taking into account any dilution impact at the time of vesting. While reducing the number of EPS Rights that would otherwise vest, the Board considers this approach preferable as it reflects the dilution impact to shareholders arising where new shares are issued.

Malus and clawback

For the FY2020 to FY2023 grant and future grants, the terms of the Long Term Incentive Plan have been amended to specifically 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 was 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 expressed to be for the period up to the 2021 annual general meeting.

Treatment on change of control

Generally, in the event of a change of control of the Company, unvested rights will vest on a pro rata basis having regard to the proportion of the performance period that has passed and after testing the relevant performance conditions at that time. The Board has discretion to determine whether a change in control has occurred and the treatment of the rights at that time.

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.

5.5 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 47% of the Company's employees were shareholders of the Company (an increase from 42% in the prior year), the vast majority of whom acquired their shares because of the GES Plan.

During the financial year, the Company made its fifth offer under this plan and issued 185,134 shares to 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 CEO and Managing Director, 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 five share offers under the GES Plan (since 2015) has received 2,175 Baby Bunting shares. This represents around $7,000 worth of value (using the share price at the end of the financial year and including the dividends that have been paid on those shares).

Details of the fives 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

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).

The Board intends making grants under the GES Plan in the future to eligible employees to reward sustainable financial performance.

6. 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 in 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 to ensure it is market competitive. A review was undertaken by the Committee in November 2018 with fees last adjusted on 1 January 2019. No changes have been since that time to Non-executive Director remuneration.

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

Role	Non-executive Director fees $
Chairman	135,000
Non-executive Director	80,000
Chairman of a Board Committee	15,000
Member of a Board Committee	7,500

For the financial year ended 28 June 2020, the fees paid and superannuation contributions to all Non-executive Directors were approximately $515,000 in aggregate.

7. 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	Share based payment[2]			
	Year	Salary & fees[1] $	STI and other fees $	Non-monetary benefits $	Super-annuation $	Long service leave $	LTI Plan rights[3]	Employee share plan[4]	Total[5] $	Performance related %
Non-executive Directors										
Ian Cornell	2020	130,137	–	–	12,363	–	–	–	142,500	–
	2019	126,608	–	–	12,028	–	–	–	138,636	–
Gary Levin	2020	86,758	–	–	8,242	–	–	–	95,000	–
	2019	81,261	–	–	7,719	–	–	–	88,980	–
Melanie Wilson	2020	93,607	–	–	8,893	–	–	–	102,500	–
	2019	87,047	–	–	8,270	–	–	–	95,317	–
Donna Player	2020	79,909	–	–	7,591	–	–	–	87,500	–
	2019	73,085	–	–	6,943	–	–	–	80,028	–
Gary Kent (appointed 12 December 2018)	2020	79,909	–	–	7,591	–	–	–	87,500	–
	2019	43,089	–	–	4,093	–	–	–	47,182	–
Disclosed executives										
Matt Spencer	2020	536,386	–	10,458	21,003	14,645	445,664	–	1,028,156	43.3%
	2019	520,295	143,000	9,500	20,531	18,046	450,999	–	1,162,371	51.1%
Darin Hoekman	2020	363,395	–	7,500	21,003	15,576	312,650	999	721,123	43.4%
	2019	361,804	104,390	7,500	20,531	10,480	239,994	750	745,449	46.2%
Total	**2020**	**1,370,101**	**–**	**17,958**	**86,686**	**30,221**	**758,314**	**999**	**2,264,279**	
	2019	**1,293,189**	**247,390**	**17,000**	**80,115**	**28,526**	**690,993**	**750**	**2,357,963**	

1. Amount includes the value of annual leave accrued during the financial year and salary sacrifice arrangements.
2. The value of share based payments has been calculated in accordance with applicable accounting standards.
3. 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.
4. The Company issued 185,134 shares under its General Employee Share Plan in the current reporting period with no monetary consideration payable by participating eligible employees who each received approximately $1,000 worth of shares. In the prior reporting period, the Company issued 163,944 shares under its General Employee Share Plan with no monetary consideration payment by participating eligible employees who each received approximately $750 worth of shares.
5. There were no termination benefits paid or payable during the current financial year.

8. 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.

Disclosed	Balance at start of the year	Net change	Balance at the end of the year
Non-executive Directors			
Ian Cornell	900,000	–	900,000
Gary Levin	200,000	–	200,000
Melanie Wilson	20,000	–	20,000
Donna Player	36,000	–	36,000
Gary Kent	–	20,000	20,000
Disclosed executives			
Matt Spencer	1,310,978	54,992	1,365,970
Darin Hoekman	381,377	(165,987)	215,390

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								
FY2016 to FY2020 rights	1,862,868	–	–	–	354,992	$42,599	(990,857)	517,019
FY2018 to FY2021 rights	600,000	–	–	–	–	–	–	600,000
FY2019 to FY2022 rights[1]	–	533,000	$2.73	$1,453,906	–	–	–	533,000
Darin Hoekman								
FY2016 to FY2020 rights	745,585	–	–	–	132,552	$15,906	(394,981)	218,052
Retention rights (FY2021)	165,000	–	–	–	–	–	–	165,000
FY2018 to FY2021 rights	400,000	–	–	–	–	–	–	400,000
FY2019 to FY2022 rights[1]	–	374,500	$2.73	$1,021,553	–	–	–	374,500

Notes:

1. In respect of the FY2019 to FY2022 rights, Matt Spencer was granted performance rights pursuant to shareholder approval granted at the 2019 AGM on 8 October 2019. During the year, Darin Hoekman was granted the rights detailed above on 25 October 2019.

Details of the performance conditions and performance periods for those rights are set out in Section 5.3 (Long term incentive plan) above.

Options

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

9. 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

10. Other KMP disclosures

Other than 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

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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 financial year ended 28 June 2020, 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; and

(b) no contraventions of 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
14 August 2020

consolidated financial report

for the year ended 28 June 2020

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consolidated statement of profit or loss and other comprehensive income

for the 52 weeks ended 28 June 2020

	Note	2020 $'000	2019 $'000 Restated
Revenue	3	405,173	368,006
Cost of sales		(258,313)	(239,576)
Gross profit		**146,860**	**128,430**
Finance income	4	7	17
Store expenses	5	(81,437)	(74,722)
Marketing expenses		(6,594)	(6,040)
Warehousing expenses	5	(5,367)	(5,283)
Administrative expenses	5	(22,823)	(18,593)
Project and acquisition related expenses	5	(3,988)	(788)
Impairment of assets	5	(5,825)	–
Finance expenses	5	(5,756)	(5,745)
Profit before tax		**15,077**	**17,276**
Income tax expense	6	(5,091)	(5,630)
Profit after tax		**9,986**	**11,646**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**9,986**	**11,646**
Profit for the year attributable to:			
Equity holders of Baby Bunting Group Limited		9,986	11,646
Earnings per share			
From continuing operations			
Basic (cents per share)	30(a)	7.8	9.2
Diluted (cents per share)	30(b)	7.3	8.7

Notes to the consolidated financial statements are included in pages 65 to 97.

consolidated statement of financial position

as at 28 June 2020

	Note	28 Jun 2020 $'000	30 Jun 2019 $'000 Restated	24 Jun 2018 $'000 Restated
Current Assets				
Cash and cash equivalents	27(b)	13,337	5,841	7,233
Other receivables	7	5,122	4,095	3,805
Inventories	8	65,094	68,204	62,974
Other assets	9	2,516	1,511	1,677
Total Current Assets		**86,069**	**79,651**	**75,689**
Non-Current Assets				
Plant and equipment	10	22,482	24,452	21,030
Intangibles	11	3,690	4,535	2,554
Goodwill	11	45,321	45,321	44,180
Right of use asset	12	93,504	95,674	85,203
Deferred tax assets	14	7,195	7,000	6,281
Total Non-Current Assets		**172,192**	**176,982**	**159,248**
Total Assets		**258,261**	**256,633**	**234,937**
Current Liabilities				
Trade and other payables	15	49,950	44,273	36,462
Other liabilities	16	1,957	1,928	1,614
Current tax liabilities		1,305	2,728	888
Lease liability	12	24,895	28,969	26,259
Provisions	18	5,137	4,111	3,206
Total Current Liabilities		**83,244**	**82,009**	**68,429**
Non-Current Liabilities				
Borrowings	17	–	3,133	10,770
Lease liability	12	81,083	78,520	69,182
Provisions	18	565	427	353
Total Non-Current Liabilities		**81,648**	**82,080**	**80,305**
Total Liabilities		**164,892**	**164,089**	**148,734**
Net Assets		**93,369**	**92,544**	**86,203**
Equity				
Issued capital	19	86,358	85,706	85,292
Share based payments reserve	23	4,380	2,515	912
Retained earnings	21	2,631	4,323	(1)
Total Equity		**93,369**	**92,544**	**86,203**

Notes to the consolidated financial statements are included in pages 65 to 97.

consolidated statement of changes in equity

for the year ended 28 June 2020

	Issued Capital $'000	Share Based Payments Reserve $'000	Retained Earnings $'000 Restated	Total Equity $'000 Restated
Balance at 24 June 2018	85,292	912	4,803	91,007
Adoption of AASB 16	–	–	(4,804)	(4,804)
Balance as at 24 June 2018 (restated)	**85,292**	**912**	**(1)**	**86,203**
Profit for the period	–	–	11,646	11,646
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	**–**	**–**	**11,646**	**11,646**
Issue of shares	414	–	–	414
Dividends	–	–	(7,322)	(7,322)
Share based payment expense	–	1,603	–	1,603
Balance at 30 June 2019 (restated)	**85,706**	**2,515**	**4,323**	**92,544**
Balance at 30 June 2019 (restated)	85,706	2,515	4,323	92,544
Profit for the period	–	–	9,986	9,986
Other comprehensive income	–	–	–	–
Total comprehensive income for the period	**–**	**–**	**9,986**	**9,986**
Issue of shares (Note 19)	652	–	–	652
Dividends (Note 20)	–	–	(11,678)	(11,678)
Share based payment expense (Note 23)	–	1,865	–	1,865
Balance at 28 June 2020	**86,358**	**4,380**	**2,631**	**93,369**

Notes to the consolidated financial statements are included in pages 65 to 97.

consolidated statement of cash flows

for the 52 weeks ended 28 June 2020

	Note	2020 $'000	2019 $'000 Restated
Cash flows from operating activities			
Receipts from customers		445,104	401,917
Payments to suppliers and employees		(382,462)	(350,139)
Income tax paid		(7,187)	(4,108)
Interest received		7	17
Finance costs paid		(5,615)	(5,906)
Net cash from operating activities	27(a)	**49,847**	**41,781**
Cash flows from investing activities			
Payments for plant and equipment	10	(5,457)	(8,080)
Payments for intangibles	11	(2,859)	(2,444)
Acquisition of new business	13	–	(1,265)
Net cash used in investing activities		**(8,316)**	**(11,789)**
Cash flows from financing activities			
Dividends paid	20	(11,678)	(7,322)
Net repayment of borrowings		(3,133)	(7,637)
Payments of principal portion of lease liability		(19,224)	(16,425)
Net cash used in financing activities		**(34,035)**	**(31,384)**
Net increase/(decrease) in cash and cash equivalents		**7,496**	**(1,392)**
Cash and cash equivalents at beginning of the period		5,841	7,233
Cash and cash equivalents at end of the period	27(b)	**13,337**	**5,841**

Notes to the consolidated financial statements are included in pages 65 to 97.

notes to the consolidated financial statements

for the year ended 28 June 2020

Note 1: Reporting entity

Baby Bunting Group Limited (the Company or the Group) is a company domiciled in Australia. The address of the Company's registered office and its principal place of business is 955 Taylors Road, Dandenong South, Victoria 3175, Australia.

The consolidated financial statements of the Company as at and for the year ended 28 June 2020 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 52 week retail calendar for financial reporting purposes which ended 28 June 2020. The prior year was a 53 week retail calendar ending on 30 June 2019.

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 14 August 2020.

b. Basis of Preparation

The consolidated financial statements have been prepared on the basis of historical cost 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 values 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.

Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment' and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 'Inventories' or value in use in AASB 136 'Impairment of Assets'.

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 Group is required to make judgments, 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 year.

Note 2: Summary of significant accounting policies continued

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

The Group'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 year end and where the estimated selling price of inventory is lower than the cost to sell, the difference is recognised in the provision.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation estimates the future cash flows expected to arise from the cash generating unit 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 (2019: 3.0%)
Terminal sales growth rate	3.0% (2019: 3.0%)
Forecasted gross margin	Average gross margins achieved in the period immediately before the forecast period
Forecasted retail store expenses	Forecast increases correlate to the consumer price indices. The values assigned to the key assumption are consistent with external sources of information
Pre-tax weighted average cost of capital	12.05% (2019: 15.70%)

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.

Baby Bunting Group Limited as a whole is considered its own cash generating unit.

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 (x) (ii) for significant judgements required for lease term of contracts with renewal options and determining the incremental borrowing rate for leases.

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 year 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 into 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. 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.

f. Income tax

The Company is 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 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, Baby Bunting Group Limited and the other entity 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 year. 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 years 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.

Note 2: Summary of significant accounting policies continued

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.

g. 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.

h. 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

i. 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.

Class of intangible asset	Useful Life
Computer software	5 years

j. Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required, and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to reporting date.

k. 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.

l. 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 Group expects to be entitled in exchange for those goods or services. This is generally instore 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.

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.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group 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 Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group 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 Group performs under the contract. The Group sells gift cards which can be redeemed instore or online. When gift cards are sold, the Group considers the likelihood of their redemption. The portion of the gift cards for which redemption is unlikely is known as “breakage”. The Group estimates breakage based on redemption history and expiry dates of the gift cards. Breakage is recognised as revenue in proportion to the customers’ redemption pattern. Gift cards not yet redeemed by the customers are recorded as contract liability, refer to Note 16.

m. 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.

n. 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.

o. 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 Group is amortised cost.

Note 2: Summary of significant accounting policies continued

Financial assets at amortised cost (debt instruments)

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

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 Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

p. 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.

q. 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 directors' best estimate of the expenditure required to settle the Group's obligation.

r. 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 Group'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

This is the category most relevant to the Group. 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.

s. Borrowing costs

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

t. Borrowings

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.

u. Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

v. Comparative amounts

The comparative figures are for the period 24 June 2018 to 30 June 2019. Where appropriate, comparative information has been reformatted to allow comparison with current year information.

w. 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. 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 asset. The Company bases its impairment calculation on most recent budgets and projection calculations, which are prepared separately for each of the Company's individual assets.

x. Changes in accounting policies and disclosures

New and amended Standards and Interpretations adopted

The Company applied, for the first time, AASB 16 Leases. As required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, the nature and effect of these changes are disclosed below.

AASB 16 Leases

AASB 16 supersedes AASB 117 Leases, Interpretation-4 Determining whether an Arrangement contains a Lease, Interpretation-115 Operating Leases-Incentives and Interpretation-127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Company adopted AASB 16 using the full retrospective method of adoption with the date of initial application of 1 July 2019. The Company also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). The Company has applied the practical expedient not to separate non-lease components from lease components, and instead accounted for each lease component and any associated non-lease components as a single lease component.

Note 2: Summary of significant accounting policies continued

Leases

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

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

i. Nature of the effect of adoption of AASB 16

The Company has lease contracts for various items of property, material handling equipment and motor vehicles. Before the adoption of AASB 16, the Company classified each of its leases (where it is the lessee) at the inception date as an operating lease. For operating leases of leased property, the lease payments were recognised as rent expense in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent was recognised under Prepayments and Trade and other payables, respectively. Operating leases of material handling equipment and motor vehicles, lease payments were recognised as expenses on a straight-line basis over the lease term.

Upon adoption of AASB 16, the Company applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Company recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the full retrospective method of adoption, the Company applied AASB 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts.

In accordance with the full retrospective method of adoption, the Company applied AASB 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in these annual consolidated financial statements has been restated.

As at 24 June 2018:

- Right-of-use assets of $85.203 million were recognised and presented separately in the statement of financial position.
- Lease liabilities of $95.441 million were recognised and presented separately in the statement of financial position.
- Deferred tax assets increased by $1.755 million due to the deferred tax impact of the changes in assets and liabilities.
- Operating lease provisions decreased by $3.679 million.
- The net effect of these adjustments has been adjusted to Retained earnings ($4.804 million).

As at 30 June 2019:

- Right-of-use assets of $95.674 million were recognised and presented separately in the statement of financial position.
- Lease liabilities of $107.489 million were recognised and presented separately in the statement of financial position.
- Deferred tax assets increased by $2.047 million due to the deferred tax impact of the changes in assets and liabilities.
- Operating lease provisions decreased by $4.286 million.
- Current tax liabilities increased by $0.077 million.
- The net effect of these adjustments has been adjusted to Retained earnings ($5.559 million).

For the year ended 28 June 2020:

- Depreciation expense of $19.986 million (2019: $18.156 million) is now recognised in relation to right-of-use assets.
- Rent expense of $24.912 million (2019: $22.215 million) relating to operating leases and previously included in 'Store expenses', 'Warehousing expenses' and 'Administrative expenses' is no longer recognised.
- Finance costs of $4.947 million (2019: $5.035 million) now recognised in relation to interest expense on lease liabilities.

- Income tax expense of $0.336 million (2019: ($0.215 million)) relating to the net changes in expenses previously described.
- Cash flow statement disclosure: Operating lease payments of $24.171 million (2019: $21.460 million) previously recognised as payments to suppliers now split between finance costs paid of $4.947 million (2019: $5.035 million) and payments of the principal portion of lease liabilities in financing activities of $19.224 million (2019: $16.425 million).

ii. Summary of new accounting policies

Set out below are the new accounting policies of the Company upon adoption of AASB 16:

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 10 years
- Motor vehicles and material handling equipment 1 to 5 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section (w) 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 because 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 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).

Note 2: Summary of significant accounting policies continued

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. The discount rate methodology applied at transition date continues to be applied for leases entered into during the current financial reporting period using revised inputs and assumptions as appropriate.

iii. Impact on the statement of financial position (increase/(decrease))

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

	2020 $'000	2019 $'000 Restated	2018 $'000 Restated
Assets			
Right-of-use assets	93,504	95,674	85,203
Deferred tax assets	1,695	2,047	1,755
Total assets	**95,199**	**97,721**	**86,958**
Liabilities			
Lease liability	105,978	107,489	95,441
Tax liability	–	77	–
Provisions	–	(4,286)	(3,679)
Total liabilities	**105,978**	**103,280**	**91,762**
Equity			
Retained earnings	–	(5,559)	(4,804)
Total equity	**–**	**(5,559)**	**(4,804)**

Impact on the Statement of profit and loss (increase/(decrease))

	2020 $'000	2019 $'000 Restated
Depreciation expense	19,986	18,156
Rent expense	(24,912)	(22,215)
Operating profit	**4,926**	**4,059**
Finance costs	4,947	5,035
Income tax expense	336	(215)
Profit for the period	**(357)**	**(761)**

Impact on the Statement of cash flows (increase/(decrease))

	2020	2019
Payment to suppliers	(24,171)	(21,460)
Finance costs paid	4,947	5,035
Net cash flow from operating activities	**19,224**	**16,425**
Payment of principal portion of lease liability	19,224	16,425
Net cash flow used in financing activities	**19,224**	**16,425**

Impact on the Statement of Profit and Other Comprehensive Income increase/(decrease) for the full year ended 30 June 2019

	Reference	AASB 16 $'000 (Restated)	Previous AASB $'000	Increase/ (decrease) $'000
Revenue		368,006	368,006	–
Cost of sales		(239,576)	(239,576)	–
Gross profit		**128,430**	**128,430**	**–**
Interest income		17	17	–
Store expenses	2(i)	(74,722)	(78,785)	(4,063)
Marketing expenses		(6,040)	(6,040)	–
Warehousing expenses	2(i)	(5,283)	(5,240)	43
Administrative expenses	2(i)	(18,593)	(18,632)	(39)
Project and acquisition related expenses		(788)	(788)	–
Finance costs	2(i)	(5,745)	(710)	5,035
Profit before tax		**17,276**	**18,252**	**(976)**
Income tax expense		(5,630)	(5,845)	(215)
Profit after tax		**11,646**	**12,407**	**(761)**
Other comprehensive income for the period		–	–	–
Total comprehensive income for the period		**11,646**	**12,407**	**(761)**
Profit for the period attributable to:				
Equity holders of Baby Bunting Group Limited		**11,646**	**12,407**	**(761)**
Earnings per share				
From continuing operations				
Basic (cents per share)		9.2	9.8	(0.6)
Diluted (cents per share)		8.7	9.8	(1.1)

Note 2: Summary of significant accounting policies continued

Condensed Consolidated Statement of Financial Position as at 30 June 2019

	Reference	AASB 16 $'000 (Restated)	Previous AASB $'000	Increase/ (decrease) $'000
Current assets				
Cash and cash equivalents		5,841	5,841	–
Other receivables		4,095	4,095	–
Inventories		68,204	68,204	–
Other assets		1,511	1,511	–
Total current assets		**79,651**	**79,651**	**–**
Non-current assets				
Plant and equipment		24,452	24,452	–
Intangibles		4,535	4,535	–
Goodwill		45,321	45,321	
Right of use asset	2(i)	95,674	–	95,674
Deferred tax assets	2(i)	7,000	4,953	2,047
Total non-current assets		**176,982**	**79,261**	**97,721**
Total assets		**256,633**	**158,912**	**97,721**
Current liabilities				
Trade and other payables		44,273	44,273	–
Other liabilities		1,928	1,928	–
Current tax liabilities	2(i)	2,728	2,651	77
Lease liability	2(i)	28,969	–	28,969
Provisions	2(i)	4,111	4,902	(791)
Total current liabilities		**82,009**	**53,754**	**28,255**
Non-current liabilities				
Borrowings		3,133	3,133	–
Lease liability	2(i)	78,520	–	78,520
Provisions	2(i)	427	3,922	(3,495)
Total non-current liabilities		**82,080**	**7,055**	**75,025**
Total liabilities		**164,089**	**60,809**	**103,280**
Net assets		**92,544**	**98,103**	**(5,559)**
Equity				
Issued capital		85,706	85,706	–
Share based payments reserve		2,515	2,515	–
Retained earnings	2(i)	4,323	9,882	(5,559)
Total equity		**92,544**	**98,103**	**(5,559)**

AASB 12 – Income Tax: Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of AASB 12 Income Taxes. It does not apply to taxes or levies outside the scope of AASB 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its tax compliance processes, that it is probable that its tax treatments will be accepted by the taxation authorities.

The Interpretation did not have an impact on the consolidated financial statements of the Company.

Note 3: Revenue from contracts with customers

An analysis of the consolidated entity's revenue for the year, is as follows:

	2020 $'000	2019 $'000 Restated
Revenue from contracts with customers	405,173	368,006

Note 4: Finance income

Interest income	7	17

Note 5: Profit for the year

Profit before income tax expense includes the following expenses:		
Interest and finance charges paid/payable		
Interest on lease liabilities	4,947	5,035
Interest on borrowings	809	710
Depreciation and amortisation	5,307	5,121
Depreciation on right of use assets	19,986	18,156
Employee benefits expense	67,498	59,158

Note 5: Profit for the year continued

Depreciation and amortisation

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

For the year ended 30 June 2019	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	(74,722)	4,389	17,546	(52,787)
Warehousing expenses	(5,283)	173	563	(4,547)
Administrative expenses	(18,593)	559	47	(17,987)
Total	**(98,598)**	**5,121**	**18,156**	**(75,321)**
For the year ended 28 June 2020				
Store expenses	(81,437)	4,462	18,926	(58,049)
Warehousing expenses	(5,367)	186	870	(4,311)
Administrative expenses	(22,823)	659	190	(21,974)
Total	**(109,627)**	**5,307**	**19,986**	**(84,334)**

Project and acquisition expenses includes the following:

	2020 $'000	2019 $'000
Acquisition related expenses[i]	–	248
Project related expenses[ii, iii]	3,988	540
Total expenses	**3,988**	**788**

i. Acquisition related expenses relate to four car seat installation businesses purchased in the prior year – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. The costs identified relate to due diligence costs and integration costs of the acquisitions (but not the acquisition consideration) which were finalised during the last quarter of FY2019.

ii. In the current year the Company incurred non-capital costs associated with the implementation of a merchandise forecasting and replenishment system ($0.606 million), scoping and building a new loyalty program aimed at increasing engagement and lifetime spend of its customers ($0.587 million) and non-capital costs in association with the development of its digital technology assets ($0.660 million).

iii. Other transformation project expenses ($2.135 million) include external consultant costs associated with the selection and establishment of a new National Distribution Centre ($0.160 million) which is expected to be completed in FY2021 and project management costs ($1.456 million) to deliver the transformation projects.

Impairment of Assets includes the following:

	2020 $'000	2019 $'000
Digital asset writedown[i]	3,215	–
Branding asset writedown[ii]	2,610	–
Total impairment	**5,825**	**–**

i. An impairment provision of $3.215 million has been taken up against capitalised costs of its existing digital assets as the Company plans to move from a monolithic digital architecture structure to a headless digital architecture structure. This is primarily to address performance issues and ensure future opportunities with regard to our various digital opportunities are optimised.

ii. During the year the Company introduced its new corporate branding which reflects a fresh and modern way of communicating with the Company's customers across all channels. The Company incurred a non-cash expense of $2.610 million to write down the value of its old corporate branding.

Note 6: Income Tax

	2020 $'000	2019 $'000 Restated
Current tax in respect of the current year	**5,286**	**6,349**
Current tax in respect of the prior year	–	–
Deferred tax	(195)	(719)
Total tax expense	**5,091**	**5,630**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax (expense)/benefit in the financial statements as follows:

Profit before tax from continuing operations	**15,077**	**17,276**
Income tax expense calculated at 30% (2019: 30%)	(4,523)	(5,183)
Non-deductible expenditure	(627)	(561)
Over/under from prior year	59	114
Income tax expense recognised in profit or loss	**(5,091)**	**(5,630)**

The tax rate used for 2020 and 2019 in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Note 7: Other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables	200	150
Other receivables	4,922	3,945
	5,122	**4,095**

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

Note 8: Inventory

	2020 $'000	2019 $'000
Finished goods	65,766	69,256
Less: Provision for shrinkage, obsolescence and mark-down	(672)	(1,052)
	65,094	**68,204**

The cost of inventories recognised as an expense during the current reporting period in respect of continuing operations was $258.313 million (2019: $239.576 million). During 2020, $0.4 million was written back as a credit to expense for inventories carried at net realisable value (2019: $0.5 million recognised). This is recognised in cost of sales.

Note 9: Other assets

	2020 $'000	2019 $'000
Prepayments	1,929	1,014
Right of Return	587	497
	2,516	**1,511**

Note 10: Plant and equipment

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 24 June 2018	**7,249**	**34,144**	**41,393**
Additions	58	7,927	7,985
Acquisition (Refer Note 13)	–	95	95
Balance at 30 June 2019	**7,307**	**42,166**	**49,473**
Accumulated depreciation			
Balance at 24 June 2018	**(2,871)**	**(17,492)**	**(20,363)**
Depreciation	(749)	(3,909)	(4,658)
Balance at 30 June 2019	**(3,620)**	**(21,401)**	**(25,021)**
Carrying amount as at 30 June 2019	**3,687**	**20,765**	**24,452**

Cost	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Balance at 30 June 2019	**7,307**	**42,166**	**49,473**
Additions	2	5,455	5,457
Disposals	(127)	(4,351)	(4,478)
Balance at 28 June 2020	**7,182**	**43,270**	**50,452**
Accumulated depreciation			
Balance at 30 June 2019	**(3,620)**	**(21,401)**	**(25,021)**
Depreciation	(627)	(4,190)	(4,817)
Disposals	61	1,807	1,868
Balance at 28 June 2020	**(4,186)**	**(23,784)**	**(27,970)**
Carrying amount as at 28 June 2020	**2,996**	**19,486**	**22,482**

Note 11: Intangible assets and goodwill

Cost	Goodwill $'000	Intangibles $'000
Balance at 24 June 2018	**44,180**	**3,728**
Additions	–	2,444
Acquisition (Refer Note 13)	1,141	–
Balance at 30 June 2019	**45,321**	**6,172**
Amortisation and impairment losses		
Balance at 24 June 2018	–	(1,174)
Amortisation	–	(463)
Balance at 30 June 2019	**–**	**(1,637)**
Carrying amount as at 30 June 2019	**45,321**	**4,535**

Cost	Goodwill $'000	Intangibles $'000
Balance at 30 June 2019	**45,321**	**6,172**
Additions	–	2,859
Impairment write-down	–	(3,215)
Balance at 28 June 2020	**45,321**	**5,816**
Amortisation and impairment losses		
Balance at 30 June 2019	–	(1,637)
Amortisation	–	(489)
Balance at 28 June 2020	**–**	**(2,126)**
Carrying amount as at 28 June 2020	**45,321**	**3,690**

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

Note 12: Leases

The Company has lease contracts for various items of property, motor vehicles and material handling equipment used in its operations. Leases of buildings and equipment generally have lease terms between 3 and 10 years, while motor vehicles generally have lease terms between 1 and 4 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 and termination 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 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 and 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 at 28 June 2020.

Note 12: Leases continued

The Company has signed a commitment to enter into a lease of a new purpose built Distribution Centre which is expected to be complete in the second half of FY2021. The lease is expected to be for a period of 12 years and any reasonably certain option periods will be assessed upon entering the lease.

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 24 June 2018 (restated)	**83,844**	**–**	**1,359**	**85,203**
Additions	28,017	–	610	28,627
Depreciation expense	(17,707)	–	(449)	(18,156)
As at 30 June 2019 (restated)	**94,154**	**–**	**1,520**	**95,674**
Additions	16,183	311	433	16,927
Remeasurements	889	–	–	889
Depreciation expense	(19,294)	(141)	(551)	(19,986)
As at 28 June 2020	**91,932**	**170**	**1,402**	**93,504**

Lease Liabilities

	2020 $'000	2019 $'000 Restated
Opening balances	**107,489**	**95,441**
Additions	16,927	28,473
Accretion of interest	4,947	5,035
Remeasurements	786	–
Payments	(24,171)	(21,460)
Closing balances	**105,978**	**107,489**
Current	24,895	28,969
Non-current	81,083	78,520
Total lease liabilities	**105,978**	**107,489**

The maturity analyses of lease liabilities are disclosed in Note 26 Financial Instruments.

The following are the amounts recognised in profit and loss:

	2020 $'000	2019 $'000 Restated
Depreciation expense of right-of-use asset	19,986	18,156
Interest expense on lease liabilities	4,947	5,035
Rent expenses – short-term leases	7	–
Rent expenses – leases of low-value assets (included in stores, administration and warehouse)	286	–
Rent expenses – variable lease payments	2,711	2,302
As at 28 June 2020	**27,937**	**25,493**

The Company had total cash outflows for leases of $27.175 million in 2020 ($23.762 million in 2019). The Company also had non-cash additions to right-of-use assets and lease liabilities of $16.927 million in 2020 ($28.473 million in 2019).

Note 13: Acquisition of businesses in Financial Year 2019

The Company acquired four car seat installation businesses during the prior year – one in each of Victoria, New South Wales, Queensland and South Australia. These businesses previously provided car seat installation services to Baby Bunting on a fee per service basis. As part of this acquisition we acquired key management personal and their team of installers providing expertise in car seat installation services. The goodwill of $1,141,000 comprises the value of expected synergies arising from the acquisition of key management personal and team, which is not separately recognised. Transaction costs of $248,000 were expensed and are included in acquisition expenses (Refer Note 5) and included in the payment to suppliers and employees cash flow in the Cash Flow Statement.

Acquisition of New Business	2019 $'000 Fair value recognised on acquisition
Assets	
Property, plant and equipment	95
Inventory	70
	165
Liabilities	
Provisions	(41)
Total identifiable net assets at fair value	**124**
Goodwill arising on acquisition	1,141
Purchase consideration transferred	**1,265**

Note 14: Deferred tax assets

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

	2020 $'000	2019 $'000 Restated
Deferred tax assets	7,195	7,000

2019 – Consolidated Restated $'000	Opening balance	Recognised in profit or loss	Closing balance
Employee benefits	**1,068**	294	**1,362**
Accruals	**358**	177	**535**
Non-refundable layby income	**777**	(70)	**707**
Inventories	**478**	17	**495**
Gift vouchers	**304**	46	**350**
Operating lease	**–**	–	**–**
IPO transaction costs – listing	**224**	(112)	**112**
IPO transaction costs – issuance of new shares	**211**	(106)	**105**
Right of use asset	**(25,707)**	(3,141)	**(28,848)**
Lease liability	**28,568**	3,614	**32,182**
Total	**6,281**	**719**	**7,000**

2020 – Consolidated $'000	Opening balance	Recognised in profit or loss	Closing balance
Employee benefits	**1,362**	349	**1,711**
Non-deductible accruals	**535**	(391)	**144**
Non-refundable layby income	**707**	127	**834**
Inventories	**495**	(142)	**353**
Gift vouchers	**350**	(36)	**314**
Operating lease	**–**	–	**–**
IPO transaction costs – listing	**112**	(112)	**–**
IPO transaction costs – issuance of new shares	**105**	(105)	**–**
Right of return	**–**	97	**97**
Right of use asset	**(28,848)**	797	**(28,051)**
Lease liability	**32,182**	(389)	**31,793**
Total	**7,000**	**195**	**7,195**

Note 15: Payables

	2020 $'000	2019 $'000
Current		
Trade payables	36,110	30,398
Sundry payables	13,840	13,875
	49,950	**44,273**

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 $5,699,000 (2019: $4,924,000) of deposit and instalment payments received by the Company in relation to layby sales taken out by customers.
- Other payables 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 26(b).

Note 16: Other liabilities

	2020 $'000	2019 $'000
Unredeemed gift cards	1,048	1,169
Refund liability	909	759
	1,957	**1,928**

The unredeemed gift cards are expected to be redeemed within a year.

Note 17: Loans and borrowings

	2020 $'000	2019 $'000
Non-current – Secured		
Bank loan	–	3,133

The ongoing funding requirements of the consolidated entity are provided by the National Australia Bank ("NAB"). The secured multi option facility matures on 31 July 2022 and the facility limit is $58,00,000. Security consists of a Deed of Charge over the assets of Baby Bunting Pty Ltd. The Company is a guarantor to the facility.

The total facility limit at balance date was $58,000,000, consisting of $50,000,000 Corporate Market Loan ("CML") facility and $8,000,000 bank guarantee facility. The CML facility can be drawn to the lesser of $50,000,000 or 2.25 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 28 June 2020. The current facility does not require the consolidated entity to amortise borrowings.

On 23 July 2020, the Company and NAB expanded the multi option facility by adding a further $20,000,000 CML facility which matures on 31 July 2022.

Note 18: Provisions

	2020 $'000	2019 $'000 Restated
Current		
Employee benefits	5,137	4,111
Non-Current		
Employee benefits	565	427

Note 19: Issued capital

	28 June 2020		30 June 2019	
	No. of shares	$'000	No. of shares	$'000
Fully paid ordinary shares				
Balance at beginning of the year	126,441,237	85,706	125,980,596	85,292
Issue of shares:				
– Employee Gift Offer	185,134	652	163,944	414
– LTI vesting	938,103	–	296,697	–
Balance at end of the year	127,564,474	86,358	126,441,237	85,706

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

Note 20: Dividends

	2020		2019	
	$ per ordinary share	$'000	$ per ordinary share	$'000
Recognised amounts				
Final 2019 dividend	0.051	6,448	0.025	3,150
Interim 2020 dividend	0.041	5,230	0.033	4,172

On 16 August 2019, the Directors determined to pay a fully franked final dividend of 5.1 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2019. The dividend was subsequently paid to shareholders on 13 September 2019 totalling $6.448 million.

On 28 February 2020, the Directors determined to pay an interim fully franked dividend of 4.1 cents per share to the holders of fully paid ordinary shares in respect of the half-year ended 29 December 2019. The dividend was subsequently paid to shareholders on 13 March 2020 totalling $5.230 million.

On 14 August 2020, the Directors determined to pay a fully franked final dividend of 6.4 cents per share to the holders of fully paid ordinary shares in respect of the financial year ended 28 June 2020, to be paid to shareholders on 11 September 2020. The dividend has not been included as a liability in these consolidated financial statements. The record date for determining entitlements to the dividend is 28 August 2020. The total estimated dividend to be paid is $8.163 million.

	Company	
	2020 $'000	2019 $'000
Adjusted franking account balance	9,162	7,310

Note 21: Retained earnings

	2020 $'000	2019 $'000 Restated
Retained earnings		
Balance at beginning of year	4,323	(1)
Profit attributable to owners of the Company	9,986	11,646
Payment of dividends	(11,678)	(7,322)
Balance at end of year	**2,631**	**4,323**

Note 22: Segment information

Management has determined the operating segments based on the reports reviewed by the CEO and Managing Director (the chief operating decision maker as defined under AASB 8) that are used to make strategic and operating decisions. The CEO and Managing Director considers the business primarily from a geographic perspective. On this basis management has identified one reportable segment, Australia. The consolidated entity does not operate in any other geographic segment.

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

	Australia		Total	
	2020 $'000	2019 $'000 Restated	2020 $'000	2019 $'000 Restated
Revenue	405,173	368,006	405,173	368,006
Operating EBIT	23,456	25,231	23,456	25,231
Total segment assets	258,261	256,633	258,261	256,633
Additions to plant and equipment and intangibles	8,316	10,524	8,316	10,524
Depreciation and amortisation	25,293	23,277	25,293	23,277
Total non-current assets[1]	164,997	169,982	164,997	169,982
Total segment liabilities	164,892	164,089	164,892	164,089

1. Non-current assets exclude deferred tax assets.

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current reporting period (2019: nil).

The accounting policies of the reportable segment are the same as the consolidated entity's accounting policies described in Note 2. The CEO and Managing Director assesses the performance of the operating segment based on a measure of Operating EBIT. This measure basis excludes the effects of interest revenue, finance costs, income tax, other non-operating costs and associated indirect tax costs.

Note 22: Segment information continued

Operating EBIT

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

	2020 $'000	2019 $'000 Restated
Operating EBIT	**23,456**	**25,231**
Interest revenue	7	17
Finance expenses	(5,756)	(5,745)
Employee equity expenses	(2,630)	(2,227)
Profit before tax	**15,077**	**17,276**

Segment assets and liabilities

The amounts provided to the CEO and Managing Director 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:

	28 Jun 2020	30 Jun 2019 $'000 Restated
Total segment assets	258,261	256,633
Total segment liabilities	164,892	164,089

Note 23: Share based payments

	2020 $'000	2019 $'000
Share based payments reserve		
Balance at beginning of period	2,515	912
Performance rights – expense (Note 23(a))	1,865	1,603
Balance at end of period	**4,380**	**2,515**

a. 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 (Retention rights).

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 $1.67 (2019: $0.80). 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
2019 – Series 1 (TSR CAGR)	3 September 2018	$1.36	nil	(1)
2019 – Series 1 (EPS CAGR)	3 September 2018	$2.39	nil	(1)
2019 – Series 2 (TSR CAGR)	30 November 2018	$2.19	nil	(1)
2019 – Series 2 (EPS CAGR)	30 November 2018	$2.32	nil	(1)
2019 – Series 3 (TSR CAGR)	30 November 2018	$0.74	nil	(1)
2019 – Series 3 (EPS CAGR)	30 November 2018	$2.32	nil	(1)
2019 – Series 3 (Retention)	30 November 2018	$2.32	nil	(1)
2019 – Series 4 (TSR CAGR)	31 May 2019	$1.14	nil	(1)
2019 – Series 4 (EPS CAGR)	31 May 2019	$2.45	nil	(1)
2019 – Series 4 (Retention)	31 May 2019	$2.45	nil	(1)
2020 – Series 1 (TSR CAGR)	25 October 2019	$1.67	nil	(1)
2020 – Series 1 (EPS CAGR)	25 October 2019	$3.79	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.

	2019 Series 1 TSR	2019 Series 2 TSR	2019 Series 3 TSR	2019 Series 4 TSR	2020 Series 1 TSR
Grant date share price	$2.39	$2.32	$2.32	$2.45	$1.67
Exercise price	nil	nil	nil	nil	nil
Expected volatility	45%	45%	45%	45%	55%
Expected life (years)	0.8, 1.8	1.6	2.6	2.6	2.6
Dividend yield	4.50%	3.70%	3.70%	3.70%	2.21%
Risk-free interest rate	1.96%	2.11%	2.11%	2.11%	1.35%

Note 23: Share based payments continued

Movements in performance rights during the year

The consolidated entity recorded a share based payments expense for performance rights of $1.865 million (2019: $1.603 million) 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 year:

	52 weeks ended 28 June 2020			53 weeks ended 30 June 2019		
	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	**3,942,223**	**4,219,334**	**614,000**	**2,730,641**	**2,730,644**	**–**
Granted during the period	1,155,500	1,155,500	–	1,602,000	1,602,000	614,000
Forfeited during the period	(226,740)	(257,000)	(50,000)	–	–	–
Exercised during the period	(938,103)	–	–	(296,697)	–	–
Lapsed during the period	–	(2,710,334)	–	(93,721)	(113,310)	–
Balance at end of period	**3,932,880**	**2,407,500**	**564,000**	**3,942,223**	**4,219,334**	**614,000**
Exercisable at end of period	**–**	**–**	**–**	**–**	**–**	**–**

b. 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 185,134 shares (2019: 163,944 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 $0.652 million (2019: $0.414 million) was fully expensed at the time of granting, as there are no performance or service conditions.

Note 24: 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 (2019: 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:

	2020 $'000	2019 $'000
Short-term employment benefits	1,388,059	1,557,579
Post-employment benefits	86,686	80,115
Other long-term benefits	30,221	28,526
Share-based payments	759,313	691,743
	2,264,279	**2,357,963**

Note 25: Commitments for expenditure

Capital commitments

The consolidated entity has capital commitments totalling nil (2019: nil).

Note 26: 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 no 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:

	2020 $'000	2019 $'000
Financial assets		
Cash and cash equivalents	13,337	5,841
Other receivables	5,122	4,095
	18,459	**9,936**
Financial liabilities		
Trade and other payables	44,251	39,349
Borrowings	–	3,133
Lease liability	105,978	107,489
	150,229	**149,971**

a. Market risk

i. Foreign exchange risk management

The majority of the consolidated entity's operations are transacted in the functional currency, AUD of the group and are therefore exposure to foreign exchange risk is limited to less than 10% of goods which are purchased in a foreign currency.

A decrease in the exchange rate of AUD relative to the USD could result in increased costs of goods imported. Consequently, the consolidated entity is exposed to movements in the AUD/USD exchange rate should suppliers pass through to the consolidated entity movements in cost of goods attributed to foreign exchange.

The consolidated entity has historically elected to pass on changes to the cost of goods from foreign exchange movements without adversely impacting sales or gross profit margin.

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.

Note 26: Financial instruments – fair values and risk management continued

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 50 basis points 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.

	Interest rate risk		
		–50bps	+50 bps
At 30 June 2019	Carrying amount $'000	Profit $'000	Profit $'000
Financial liabilities			
Borrowings – CML Facility	3,133	16	(16)
Total increase/(decrease)	**3,133**	**16**	**(16)**

	Interest rate risk		
		–50bps	+50 bps
At 28 June 2020	Carrying amount $'000	Profit $'000	Profit $'000
Financial liabilities			
Borrowings – CML Facility	–	–	–
Total increase/(decrease)	**–**	**–**	**–**

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:

	2020		2019	
	Limit $'000	Utilised $'000	Limit $'000	Utilised $'000
CML Facility	50,000	–	50,000	3,133
Bank Guarantee Facility	8,000	3,729	8,000	3,662
Total Facility	**58,000**	**3,729**	**58,000**	**6,795**

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.

At 30 June 2019 Restated	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	5,841	–	–	–	–	5,841	0.25%
Other receivables	4,095	–	–	–	–	4,095	–
	9,936	**–**	**–**	**–**	**–**	**9,936**	
Financial liabilities							
Trade and other payables	39,349	–	–	–	–	39,349	–
Lease liability	11,363	12,114	24,953	39,067	58,105	145,602	
Borrowings – CML Facility	–	–	–	3,133	–	3,133	2.75%
	50,712	**12,114**	**24,953**	**42,200**	**58,105**	**188,084**	

At 28 June 2020	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	13,337	–	–	–	–	13,337	0.23%
Other receivables	5,122	–	–	–	–	5,122	–
	18,459	**–**	**–**	**–**	**–**	**18,459**	
Financial liabilities							
Trade and other payables	44,251	–	–	–	–	44,251	–
Lease liability	12,567	12,387	21,168	33,804	42,200	122,126	
Borrowings – CML Facility	–	–	–	–	–	–	2.75%
	56,818	**12,387**	**21,168**	**33,804**	**42,200**	**166,377**	

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 27: Notes to the statement of cash flows

a. Reconciliation of profit/(loss) for the year to net cash flows from ordinary activities

	2020 $'000	2019 $'000 Restated
Profit after income tax	9,986	11,646
Non-cash expenses and other adjustments:		
Depreciation and amortisation	25,293	23,277
Share based payments	2,630	2,227
Digital asset writedown	3,215	–
Branding asset writedown	2,610	–
Changes in assets and liabilities:		
Decrease/(Increase) in other receivables	(1,026)	(291)
Decrease/(Increase) in prepayments	(1,005)	166
Decrease/(Increase) in inventories	3,110	(5,228)
Decrease/(Increase) in tax assets	(195)	(719)
Increase/(Decrease) in trade and other payables	5,461	7,570
Increase/(Decrease) in provisions	1,161	983
Increase/(Decrease) in income tax liability	(1,423)	1,837
Increase/(Decrease) in other financial liabilities	30	313
Net cash provided by operating activities	**49,847**	**41,781**

b. Reconciliation of Cash and Cash equivalents

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

	2020 $'000	2019 $'000
Cash on hand	73	73
Cash at bank	13,264	5,768
	13,337	**5,841**

Note 28: Parent entity disclosures

As at, and throughout, the 52 weeks ended 28 June 2020 the parent entity of the consolidated entity was Baby Bunting Group Limited.

	Parent Entity	
	2020 $'000	**2019 $'000**
Result of parent entity:		
Profit for the year	9,900	10,200
Other comprehensive income	–	–
Total comprehensive income for the year	**9,900**	**10,200**
Financial position of parent entity at year end:		
Current assets	–	–
Non-current assets	96,704	99,090
Total assets	**96,704**	**99,090**
Current liabilities	1,304	2,649
Non-current liabilities	–	–
Total liabilities	**1,304**	**2,649**
Total equity of the parent entity comprising:		
Issued capital	86,357	85,705
Reserves	451	451
Retained earnings	8,592	10,285
Total equity	**95,400**	**96,441**

The Company does not have any contractual commitments for the acquisition of property, plant and equipment (30 June 2019: nil).

The Company does not have any contingent liabilities (30 June 2019: nil)

Note 29: Group entities

Baby Bunting Group Limited has two 100% owned subsidiaries, Baby Bunting Pty Ltd and Baby Bunting EST Pty Ltd. 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 lodgement 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.

The Consolidated Statement of Profit and Loss and Other Comprehensive Income and Consolidated Statement of Financial Position of the consolidated entity approximates the forementioned statements comprising the Company and subsidiary which are party to the deed as at the reporting date and therefore additional Company and subsidiary financial statements are not presented.

Note 29: Group entities continued

Subsidiaries listing

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Company June 2020	June 2019
Baby Bunting Pty Ltd[1]	Retailing of baby merchandise	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%

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 represents the financial information for the group entities that are party to the deed of cross guarantee.

Note 30: Earnings per share

	2020 cents per share	2019 Restated cents per share
Basic earnings per share from continuing operations[1]	7.8	9.2
Diluted earnings per share from continuing operations[1]	7.3	8.7

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 year attributable to members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

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

	2020 $'000	2019 $'000 Restated
Earnings used in the calculation of basic earnings per share from continuing operations[1]	9,986	11,646
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	127,244,428	126,302,414

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.

The earnings used in the calculation of diluted earnings per share are as follows:

	2020 $'000	2019 $'000 Restated
Earnings used in the calculation of basic earnings per share from continuing operations[1]	9,986	11,646

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:

	2020 Number	2019 Number
Weighted average number of ordinary shares for the purposes of diluted earnings per share	135,922,008	133,352,188

Note 31: Remuneration of auditors

	2020 $	2019 $
Assurance Services		
Review of the financial report for the half-year	30,500	26,250
Audit of the year-end financial report	136,800	89,250
	167,300	115,500
Tax and Consulting Services		
Taxation services	34,524	45,100
Remuneration advisory service	38,831	–
	73,355	45,100
Total remuneration	**240,655**	**160,600**

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 32: Events after balance sheet date

Dividends on the Company's ordinary shares

A final dividend of 6.4 cents per fully paid ordinary shares has been determined for the year ended 28 June 2020 – refer Note 20.

On 23 July 2020, the Company and NAB expanded the multi option facility by adding a further $20,000,000 CML facility which matures on 31 July 2022.

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 28 June 2020.

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 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 are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; 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 28 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

Ian Cornell
Chairman

Melbourne: 14 August 2020

independent auditor's report

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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 28 June 2020, 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 year 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 28 June 2020 and of its consolidated financial performance for the year 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 judgment, 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.

Building a better working world

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.

Adoption of Australian Accounting Standard AASB 16 – Leases

Why significant	How our audit addressed the key audit matter
The 28 June 2020 financial year was the first year of adoption of Australian Accounting Standard AASB 16 - Leases ("AASB 16"). The Group has lease arrangements as lessee for retail sites, a distribution centre, equipment and motor vehicles. Note 2(x) describes the accounting for the transition and describes the accounting policy for leases on an ongoing basis. Upon transition a lease liability of $95.4 million and right of use asset of $85.2 million were recognised on the balance sheet. The quantitative impact of the transition adjustments make the impact of this new standard significant to the financial statements of the Group. In addition, the complexity in the modelling of the accounting for the leases including the calculation of the incremental borrowing rate and the judgement involved in the treatment of renewal options is significant. Given the financial significance to the Group of its leasing arrangements, the complexity and judgements involved in the application of AASB 16, and the transition requirements of the standard, this was considered to be a key audit matter.	Our audit procedures included the following: ► Considered whether the Group's new accounting policies as set out in Note 2(x), satisfied the requirements of AASB 16 including the adoption of any of the available practical expedients selected by the Group as part of the transition process; ► Assessed the integrity of the Group's AASB 16 lease calculation model, including the accuracy of the underlying calculation formulas; ► For a sample of leases, agreed the inputs in the AASB 16 lease calculation model in relation to those leases, such as, key dates, fixed and variable rent payments, renewal options and incentives, to the relevant terms of the underlying signed lease agreements; ► Considered the Group's assumptions in relation to the treatment of lease renewal options; ► Assessed whether the Group had included all of its leases taking into consideration the full retrospective transition approach and practical expedients adopted by the Group; ► Assessed the rates used to discount future lease payments to present value; ► Assessed the adequacy of the financial report disclosures contained in Note 2(x) and Note 12.

Building a better working world

Accounting for supplier rebates

Why significant	How our audit addressed the key audit matter
As detailed in Note 2(g) of the financial report, volume and promotional rebates received by the Group from suppliers are recognised as a reduction in the cost of inventory or as a direct reduction from the cost of goods sold. This was a key audit matter due to the quantum of rebates recognised during the year and the judgement required to be exercised by the Group in relation to a number of factors, including: ► The nature, complexity and commercial terms of each individual rebate; ► The appropriate timing of recognition, in particular, rebates recorded at the reporting date; and ► Consideration of whether the rebate amount should be applied against the carrying value of inventory or recognised in the income statement as a reduction in cost of goods sold. Disclosure relating to the measurement and recognition of rebates can be found in Note 2(g).	Our audit procedures included the following: ► Assessed the appropriateness of the Group's accounting policies in relation to volume rebates and promotional rebates in accordance with Australian Accounting Standards. ► Assessed the effectiveness of controls in place relating to the recognition and measurement of rebate amounts. ► Compared recorded amounts for a sample of significant rebate arrangements with amounts recorded for the same arrangements in the prior year and where material variances were identified, obtained supporting evidence. ► For a sample of individual supplier agreements, recalculated the rebate entitlements and determined whether these were correctly recorded in accordance with the terms of the agreement and Australian Accounting Standards. ► Assessed the Group's year end rebate receivable by considering the key assumptions, having regard to past claims experience and the Group's claim documentation prepared after balance date. Where available, we agreed the receivable to the amount settled subsequent to year end.

Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 28 June 2020, the Group held $65.1 million in inventories representing 25%of total assets of the Group. As detailed in Note 2(g) of the financial report, inventories are valued at the lower of cost and net realisable value.	Our audit procedures included the following: ► 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 lines to supplier invoices.

Why significant	How our audit addressed the key audit matter
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.	► 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 and historical stock loss rate trends. ► Considered the impact of sales subsequent to year end on the 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 2020 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.

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.

- 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.

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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 44 to 58 of the directors' report for the year ended 28 June 2020.

In our opinion, the Remuneration Report of Baby Bunting Group Limited for the year ended 28 June 2020, 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

Ernst & Young

Tony Morse

Tony Morse
Partner

Melbourne
14 August 2020

shareholder information

as at 7 July 2020

Baby Bunting Group Limited has one class of shares on issue (being fully paid ordinary shares). There are 127,564,474 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	37,552,227	29.44
2	CITICORP NOMINEES PTY LIMITED	21,083,435	16.53
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	17,806,052	13.96
4	NATIONAL NOMINEES LIMITED	11,628,124	9.12
5	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	3,214,369	2.52
6	BNP PARIBAS NOMS PTY LTD <DRP>	1,955,225	1.53
7	MATTHEW SPENCER	1,232,840	0.97
8	CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	931,000	0.73
9	COOLUM OAK PTY LTD <THE CORNELL SUPER FUND A/C>	900,000	0.71
10	NATIONAL NOMINEES LIMITED <DB A/C>	895,462	0.70
11	MR GRAEME JOHN HAINES + MRS SHARNI GAY HAINES <G & S HAINES S/F A/C>	887,264	0.70
12	BNP PARIBAS NOMINEES PTY LTD <IOOF INVMT MNGT LTD DRP>	700,000	0.55
13	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	677,354	0.53
14	FIDDIAN TEAL NOMINEES PTY LTD <FIDDIAN TEAL FAMILY A/C>	662,066	0.52
15	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP	512,039	0.40
16	FERGUS & CO PTY LTD <FERGUS INVESTMENT A/C>	488,974	0.38
17	OAKLEYTOWER PTY LIMITED	458,781	0.36
18	HIGHMONT HEIGHTS PTY LTD <SAUNDERS SUPER FUND A/C>	400,000	0.31
19	MR RICHARD MARTIN HAINES + MRS TUULA SINIKKA HAINES <BENARA S/F A/C>	373,500	0.29
20	JEREMY AND LYNETTE KING SUPERANNUATION PTY LTD	360,000	0.28
	Total	**102,718,712**	**80.53**

Unmarketable parcels

There were 219 holdings of less than a marketable parcel (less than $500 in value or less than 152 shares) based on the closing market price of $3.30 per share at 7 July 2020.

shareholder information

as at 7 July 2020

Distribution of Shareholders and Shareholdings

Range	Total holders	% of total holders	Number of shares	% of shares
1 – 1,000	1,575	35.4	725,677	0.57
1,001 – 5,000	1,762	39.6	4,545,196	3.56
5,001 – 10,000	615	13.8	4,635,033	3.63
10,001 – 100,000	452	10.2	10,279,593	8.06
100,001 and over	46	1.0	107,378,975	84.18
Total	**4,450**	**100.0**	**127,565,474**	**100.0**

Substantial shareholders

As at 7 July 2020, 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	3 July 2020	15,983,665	12.53%
Commonwealth Bank of Australia	19 June 2020	12,223,760	9.58%
Mitsubishi UFJ Financial Group, Inc	1 July 2020	11,746,112	9.21%
First Sentier Investors Holdings Pty Limited	30 June 2020	11,746,112	9.20%
Copia Investment Partners	27 April 2020	9,109,536	7.14%

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 7 July 2020, there were 10 holders of performance rights. There are no voting rights attached to performance rights.

corporate directory

Registered Office

Baby Bunting Group Limited

955 Taylors Road
Dandenong South VIC 3175

(03) 8795 8100

Directors

Ian Cornell

Gary Kent

Gary Levin

Donna Player

Matt Spencer

Melanie Wilson

Company Secretary

Corey Lewis

Group Legal Counsel and Company Secretary

Investor Relations

Darin Hoekman

Chief Financial Officer

(03) 9795 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

babybunting.com.au/investor

Online store

babybunting.com.au

BabyBunting