

ASX Announcement  
16 May 2022

## Step One Clothing Limited FY22 Trading Update

**Step One Clothing Limited** (ASX:STP) (“**Step One**” or “**the Company**”), a leading online, direct to consumer, innerwear brand, today provides the following trading update and guidance on its expected financial result for the year ended 30 June 2022.

Step One now expects sales revenue growth to be 15-20%, compared to previous guidance of 21-25%. Expected proforma EBITDA is revised to \$7.0-\$8.5m from \$15m.

The Australian market continues to perform well, underpinning revenue growth.

The revision in revenue reflects recent difficult trading conditions:

- USA revenue growth has occurred at a lower rate than expected, as we are working to establish our brand in a large and diverse region
- UK revenue has not grown at the rate expected, with tougher than anticipated recent trading conditions and impacted consumer confidence
- The Women's range was fully restocked in mid-April, but has not maintained the level of daily sales initially experienced in the months immediately following its launch
- Continued strong contribution margin from Australian operations underpinning revenue growth

Profitability has recently been impacted by the following factors in addition to the revenue decrease:

- USA is experiencing higher than expected Customer Acquisition Costs and will return a loss exceeding \$3.0m in FY22
- Marketing and advertising costs are higher than expected, in both the USA and UK, and will be approximately 46% of revenue due to increased digital marketing competition and lower than expected ROAS (Return on Ad Spend)
- Factory to warehouse logistics costs have increased, with recent cost inflation linked to the sustained COVID-19 lockdown in China and the war in Ukraine
- Gross profit margin for FY22 is expected to be closer to FY21 levels, despite recent increases in selling prices

\$m	Reported	Prospectus	Previous	Revised	1H22	2H22	Growth on pcp		
	FY21	FY22	Guidance	Guidance		Forecast			
	Actual	Forecast	Mid-point	Mid-point	Actual	Mid-point	1H22	2H22	FY22
<b>Revenue</b>	62	74	76	73	38	35	12%	24%	17%
<i>Growth</i>		20%	23%	17%					
<b>EBITDA</b>	9.8	15.0	15.0	7.0-8.5	7.4	(0.4) - 1.0			

Step One remains confident in its future multi-year growth prospects, with a responsive and adaptive strategy. Step One's growth initiatives include:

#### Group

- Continued expansion of product adjacencies in-line with customer demand, including expanding the Women's range and brand awareness and further cementing Step One's strong brand equity to introduce new products in line with our innerwear focus
- To raise brand awareness, we are currently testing limited core products available on Amazon in Australia, UK and USA. This expands customer reach and builds brand awareness in international markets, driving customers back to our Step One website with our full range of products
- Continued limited edition colour releases which maintain strong engagement and stickiness, together with continuing matching Women's and Men's releases such as those launched at Valentine's Day and Easter
- Build the executive team with marketing and operational capability and capacity
- Engagement of Conversion Rate Optimisation specialists in international markets

#### USA Specific Growth Initiatives

- Increased cadence of product design and focus on dropping limited editions around key annual events e.g. 4 July
- Increase in brand awareness and ESG credentials through implementation of
  - Consumer led PR
  - Brand collaborations with selected athletes and influencers
  - Localised ambassador strategy for different states
- Expanding country specific content and engaging local marketing specialists

#### UK Specific Growth Initiatives

- Focus on increased premium brand positioning through above the line channels and strong focus on consumer PR
- Localisation of content and brand ambassadors to build on recent success focussing on specific sports and personalities and seconding a manager to the UK to coordinate these initiatives
- Refer-A-Friend & Loyalty rewards program reducing reliance on paid digital channels

**Step One Founder and CEO, Greg Taylor said:** "I am disappointed to inform you of the impact of the headwinds we are currently facing in our international expansion. These challenges are by no means insurmountable, and I am completely focused on solving the issues we are facing to deliver an exceptional product to customers around the world. We had a track record of delivering in international markets, but we are now a much more substantial business and our focus is on building a strong platform, with the right infrastructure to support sustainable international growth. This will ensure that Step One is well-positioned to rebound strongly as global macro-economic disruption eases."

"We've continued to make operational progress, focusing on a tailored marketing strategy in each region, driving engagement with influencers and athletes in the UK and USA. This will continue into FY23 as we build momentum around the brand internationally. We're now selling some of our core products on Amazon in our key markets to drive our brand visibility and support customer acquisition."

"I remain confident in our unique product proposition. Our brand is supported by innovation, quality, and ESG values and, despite these short-term headwinds, we are laser focused on our long-term growth ambitions." Mr Taylor concluded.

Step One retains a strong financial position with cash of approximately \$27m and no debt (as at 30 April 2022). All numbers are estimates and subject to audit.

-ENDS-

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

### **Investor Conference Call**

Step One will host a conference call and webcast for analysts and investors at 9.30am AEST today.

Conference call registration:

<https://s1.c-conf.com/diamondpass/10022136-3a5hd.html>

### **About Step One Clothing**

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

Further information can be found on the Company's website <https://stepone.group/>. For further enquiries, please contact:

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