

TRANSCRIPTION

Company: Step One Clothing Limited (STP)

Date: 15 November 2023

Time: 11:00am AEDT

[START OF TRANSCRIPT]

David Gallop: Good morning, everybody. Thank you for joining us today. My name is David Gallop and I'm Chair of Step One Clothing Limited. On behalf of the Board of Directors, I'm pleased to welcome you to Step One's 2023 Annual General Meeting. It's now just after 11 am, the nominated time for the AGM. I've been informed by the Company Secretary that a quorum is present so I'm pleased to declare the meeting open. Today's AGM is being held virtually via the online meeting platform.

Today, I am joined online by my fellow Directors, Greg Taylor, Founder and Chief Executive Officer, Kate Thompson, Non-Executive Director, Micheal Reddie, Non-Executive Director, Rick Dennis, Non-Executive Director. Also present today are Nigel Underwood, our Chief Financial Officer, William Hundy, our Company Secretary, Crystel Gangemi, our auditor and assurance partner from auditor, Grant Thornton, who is also present and available to answer questions about the audit, the Auditor's Report, the accounting policies adopted in the financial statements and the auditor's independence.

Our Annual General Meeting is being broadcast from Gadigal Land. Our commitment to sustainability and ethical practice is at the core of who we are at Step One. We cannot do this without taking the first step in acknowledging First Peoples. Step One acknowledges the Traditional Custodians of the lands, skies and waters of First Peoples across the world. We tread respectfully on their countries and honour their continued connection to their culture for many millennia.

We acknowledge Elders, past and present, and thank them for providing their guidance, sharing their knowledge and wisdom, and all First Peoples who have continually paved the way in sustainable practices. Step One continues to be guided as we learn and grow.

The running order for today's meeting will be as follows. Firstly, I will say a few words about Step One including strategic highlights of the Step One business then Greg will address the meeting before we proceed to the formal business of the meeting. After the formal business, shareholders will have an opportunity to ask questions not directly related to the respective resolutions.

Step One was founded to innovate the innerwear market. Our disruptive products, customer engagement model and strong ESG focus has underpinned our growth since inception. Throughout the past year, we've faced challenging macroeconomic conditions across all our markets. These conditions, including the ongoing

effects of COVID-19, sector wide supply chain constraints, inflationary pressures and the impact of rising interest rates on consumer spending.

Given these conditions and owing to our highly adaptive business model, we swiftly transitioned from a growth-oriented perspective to a focus on profitability. This strategic adjustment was necessary due to the substantial rise in customer acquisition costs and as a result of this shift we were able to achieve a robust profit outcome for FY23.

We remain committed to ongoing learning and adaptation in each of the markets in which we operate. As soon as the macroeconomic environment becomes conducive to growth once more, we are prepared and well positioned to pursue it. The Board's confidence in this endeavour is underpinned by our appealing produce which continues to resonate strong with our customers.

This year, we also bolstered our already strong ESG credentials by receive Forest Stewardship Council certification. The FSC is an international NGO dedicated to promoting responsible management of the world's forests. By choosing products with FSC labels, customers know that all the materials used by Step One are sourced from forests that have been audited by an independent third party to confirm adherence to FSC's rigorous social and environmental standards. This significant effort by the management team ensure that Step One was named the first Australian clothing label to be certified by the FSC.

In the 2023 financial year, we also continued to expand our product range which now includes five women's products allowing us to now target 100% of the population and as we've seen the product strongly resonates with a wide range of customers.

Our business fundamentals are very strong. We have a significant opportunity to capture more of the global underwear market. Our business is capital light and adaptable with a flexible supply chain and distribution network and we have an abundance of opportunity for product development and adjacencies within the innerwear category.

On behalf of the Board, I would like to thank Greg Taylor, our management team and our wider team across the business for their dedication and efforts this year. I would also like to take the opportunity to thank our shareholders for their continued support. Following our strong financial performance this year, we are very pleased to announce a dividend of \$0.05 per share to our shareholders with full franking. The Board intends to assess capital needs annually, aiming to allocate surplus funds derived from profits as dividends, fully franked to the extent possible.

The Board maintains a high level of confidence in our product, team, and strategic direction as we enter FY24. I look forward to providing you with more updates as we progress on our journey. I will now hand over to Greg for a detailed update on Step One's financial and operation performance this year and the outlook for FY24. Thank you.

Greg Taylor: Thank you, David. Good morning, everyone. I'm Greg Taylor, Founder and CEO of Step One Clothing Limited.

Slide five, our FY23 results highlights. FY23 was another significant year in Step One's journey and our first full year as a listed company. I'd like to first touch on our strong performance. We achieved a revenue of \$65.2 million for FY23. Although this was 9.7% below prior year, it is still a solid outcome given the economic disruption and consumer confidence levels across all markets.

This result highlighted that Step One remains a very strong margin business with our gross margin holding above 80 at 80.7% and whilst down 1.3% on the prior corresponding period, it has stabilised at this level. One of our key metrics, average order value, was up 19.3% for the period reaching \$89. This reflects our increased focus on customer experience and product expansion and cart upsells during the year.

Our EBITDA increased by \$3 million, or 33%, reaching \$12 million compared to PCP delivering on our promise to prioritise profits over growth whilst growth costs were prohibitive. Our product continues to resonate as evidenced by our growing global customer database of over 1.3 million.

Moving on to slide six, our business model. Our growth is ultimately underpinned by the strength and nimble nature of our business model. Notably, our product design has been a game changer in the underwear market. Our underwear incorporates a range of practical features including our innovative UltraGlyde panels, an elastic 3D pouch and organically grown eco-cert bamboo. Transparency in our production processes is at the core of our business model.

Our marketing strategy continuously evolves to align with market trends and preferences. We leverage in-house video content, utilise paid social media campaigns and collaborate with influential figures in our marketing efforts. All marketing operations are managed internally and we are committed to building an exceptional team to execute these strategies.

Our unwavering commitment to our customers is a cornerstone of our success supported by a robust customer conversion and retention effort. This commitment is further reinforced by our 30-day, First Pair guarantee, free shipping, a 12-month manufacturing warranty, and rapid customer service response times.

Moving on to slide seven, our markets. Our product's key value proposition remains relevant to everyone, sweat, chafing and ride up. This year, we focused on listening and responding to our customers through nuanced messaging in each market. In Australia, we've seen great success in returning to our grassroots marketing messaging being fun, bold and explaining our problem solution product simply and comedically. This style does resonate with a very large proportion of the Australian market.

We've discovered that the concept of physically touching, feeling and seeing our product has opened new market opportunities, allowing us to reach a wider audience. Therefore, we've been organising local

activations through giveaways which have proven a successful marketing technique for us, as we know once a customer tries our products there's an over 50% chance they will come back.

In the UK, we carried out several of our learnings from the Australian market. We focused primarily on elevating our brand position in the UK during the period through aligning with influencers and partners who reflect our values and we are beginning to see further green shoots from this brand work. In the US, late in the financial year, we started using US based marketing specialists who are giving us local expertise and helped us revitalise our marketing assets and approaches.

Slide eight, our products. In March 2023, we extended our women's line by introducing the classic bikini brief and recently unveiled our seam free range. We have now a very comprehensive range of women's products designed for various occasions, enhancing our capacity to capture a larger share of the women's market. The bikini brief has garnered highly positive feedback and with the initial response to seam free range has been very encouraging. Whilst these developments on the women's side are promising, our core market, the men's product, continues to perform very strongly.

Slide nine, sustainable and ethical supply chain. While David has already touched on our ESG credentials, I'd like to emphasise that this year we achieved the final step in our full supply chain accreditation with certification from the FSC. While this is a source of great pride for me personally, it also assures our customers that Step One underwear they've chosen was manufactured to the highest ethical and environmental standards.

Step One is not only the first Australian clothing company to be certified by the FSC, we are also the first Australian company to join the FSC's, Fashion Forever Green Pact, which involves responsible procurement and certified sourcing. Considering that we've embarked on this journey for three years, we are in an excellent position to elevate this message to the forefront of our marketing mix. As consumers increasingly prioritise ESC considerations in their shopping choices, we can confidently make this a central focus in our marketing strategy and messaging.

Slide 10, our strategy. The addressable market in each of our key locations is substantial, as underwear is considered a need not a want. Moreover, our move in to the women's market has significantly increased our total addressable market, or TAM, estimated to increase by five to six times with potential additions like bras and lingerie.

We are focused on further enhancing our brand recognition through innovate and engaging content, offering consumers compelling reasons to try our products. Facebook data revealed that Step One boasts an impressive 54% brand awareness in Australia and we're now focused on growing our presence in the UK and US.

Step One operates as a highly capital efficient business. We do not own forests, factories, warehouses or expensive IT systems. Instead, we prioritise our own brand and product and with 50,000 five-star reviews, our product is clearly a market leader. We have been actively exploring various marketplaces and third-party platforms to expand our brand's reach beyond our own channels. We are making good progress in establishing partnerships, including a large retailer with a loyal customer base and a large membership organisation of impeccable credentials. These partnerships will begin in early 2024 and we hope to share more about them in the future – when we further – when we update the market in February.

Our product range expansion is significant with 50% of our offerings now targeting the women's market. We plan to continue expanding this segment allowing us to tap in to a significant market. Consumers recognise that when they put on a pair of Step One garment, they are getting a product that has undergone rigorous testing, use top quality fibres and construction and is fully FSC accredited.

In October 2022, we communicated to the market our approach of balancing profitability with top line growth. This was not a shift in our strategic direction but an adjustment to adapt to economic realities. We stand ready to actively pursue growth as soon as the market conditions permit. Our confidence in pursuing the US market remains strong and we believe we can pursue it without the level of losses experienced in FY22. Our pursuit of market share in the US does not hinder our ability to grow in other markets, while the expected returns making the associated risks worthwhile.

Slide 11, FY trading update and outlook. Step One is in a strong financial position with ample cash reserves and a resilient balance sheet. Going in to FY24, we are focused on pursuing profitable growth, expanding our customer base and diversifying our product range, investing in our capabilities, broadening our sales channels, and continuously improving the customer experience. In the long term, we are well positioned to realise our growth strategy. We plan to further penetrate our existing markets and explore opportunities in new markets to gauge market interest and potential expansion.

I would like to thank our Board, the Step One team, supplier and service providers for their commitment and support throughout the year. I would also like to thank our shareholders for their ongoing support and for placing their trust in our vision. As a major shareholder, I am deeply committed to grow the business. My belief in our products and commitment to building this business remain unwavering. I am confident that as macroeconomic conditions ease, Step One will be well positioned to pursue its international growth ambitions.

I will now hand back to David.

David Gallop: Thanks, Greg. We will now progress to the formal business of the meeting. Details about how shareholders can participate in the meeting are set out in the Notice of Meeting which was distributed to all shareholders and also in the online meeting guide. Both are available on our investor relations website. A poll will be held for all resolutions and I now formally open the poll for all resolutions. Voting for resolutions

remain open until five minutes after the end of the meeting. You may submit your live vote at any time before then. Results will be published on the ASX after the conclusion of the meeting.

At the time each item of business or resolution is considered I will invite any questions specific to that matter. If you have a question that you would like to ask there are two ways to do so. Firstly, for those who wish to ask a question using the online meeting platform, there is an ask a question button located at the top or bottom of your screen that will allow you to type in your question. You may submit written questions this way at any time. You do not need to wait until the relevant item of business so I encourage you to submit your questions as soon as possible so you have enough time to type out your question.

Secondly, the shareholders who have registered to do so, verbal questions can be asked using the telephone by pressing one on their – star one on their keypad and a moderator will assist you in being able to ask your question. This can also be accessed by shareholders online by clicking the go to web phone button on their computer screen, entering your name and following the further prompts. Questions that are relevant to the business of the meeting will be either read aloud to me or moderated by the phone [inaudible] seek to address your question during discussion on the appropriate item of business.

If we experience any significant technical issues today, we may adjourn the meeting. If this occurs, I will advise you accordingly to the extent possible and an ASX announcement will be made. As stated, in the notice of meeting, I intend to cast the votes of all open proxies granted to the Chair of the meeting in favour of all resolutions.

Consideration of the report, slide 13. The first item of business is to receive and consider the Financial Report, the Director's Report and the Auditor's Report for the financial year ended 30 June 2023. There will be no vote on this item. It is a discussion item only. Crystel Gangemi from Grant Thornton is available to take any questions about the conduct of the audit, the Auditor's Report, the accounting policies adopted in the financial statements and the auditor's independence. We will be pleased to deal with any questions you may have in relation to our reports or to the auditor. I will now address any questions on this item. Moderator, are there any questions on the phone?

Operator: There are no phone questions at this time.

David Gallop: Thank you. Are there any questions online?

Unidentified Participant: There are no questions, Chairman.

David Gallop: As there no questions I will move to the next item of Ordinary Business. This is on slide 14, resolution 1. Resolution 1 relates to the re-election of Michael Reddie as a Director of the Company. Michael's biography is included in the notice of meeting. The resolution proxies are set out in this slide. Michael is a corporate and commercial lawyer, admitted as a solicitor in Victoria in 2008. He holds Bachelor of Laws and

Commerce degrees from Monash University and has held roles at Gadens Lawyers and Lander & Rogers. Michael has worked with Step One since inception as an independent legal advisor and he is currently the Chief Legal Officer and Chief Commercial Officer.

I will now address any questions on this item. Moderator, are there any questions on the phone?

Operator: There are no phone questions at this time.

David Gallop: Are there any questions online?

Unidentified Participant: There are no questions, Chairman.

David Gallop: If there is no discussion, I now put to the meeting resolution 1. Please record your vote online. Moving now to resolution 2, slide 15, our final resolution, resolution 2, relates to the Company's Remuneration Report for the financial year ended 30 June 2023. The Remuneration Report is contained in the Company's 2023 Annual Report available on our investor website. The resolution proxies are set out on the slide. I will now address any questions on this item. Moderator, are there any questions on the phone?

Operator: There are no phone questions at this time.

David Gallop: Are there any questions online?

Unidentified Participant: There are no questions, Chairman.

David Gallop: If there's no further discussion, I'll now put to the meeting resolution 2. Please record your vote online. That concludes the voting on the resolutions of the meeting and the formal business of the meeting. The polls for all resolutions will close five minutes after the close of the meeting. Please cast your vote now, if you haven't already done so. The results of the polls will be announced to the ASX as soon as possible following the conclusion of the meeting. I would now like to address any general questions from shareholders. Moderator, are there any questions on the phone?

Operator: There are no phone questions at this time.

David Gallop: Are there any questions online?

Unidentified Participant: There are no questions, Chairman.

David Gallop: If there are any further queries following the meeting, I encourage you to send them to our investor email address on our website. That concludes the business of the meeting and I now declare the 2023 AGM for Step One closed. Thank you for attending today and for your continued support of Step One.

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