

TRANSCRIPTION

Company: Step One
Date: 12 November 2024
Time: 11:00am AEDT

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David Gallop: Thank you, good morning everybody and 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 2024 Annual General Meeting. It is now just after 11:00am, 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'm joined online by my fellow Directors: Greg Taylor, Founder and Chief Executive Officer; Kate Thompson, Non-Executive Director; Michael Reddie, Executive Director; Rick Dennis, Non-Executive Director. Also present today are Nigel Underwood, our Chief Financial Officer; William Hundy, our Company Secretary. Crystal Gangemi, our Audit and Assurance Partner from auditor Grant Thornton is also present and available to answer any questions about the audit, the Auditor's Report, the accounting policies adopted in the financial statement 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 and 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 with a clear mission to innovate the underwear market and this year we have continued to deliver on that promise. Our success is grounded in creating the best underwear in the market. In our opinion, underwear is a need not a want. It is a product almost everyone wears daily, with an average

wear time of 18 hours per day. By solving common issues like chaffing, ride up and sweat, we provide a product with clear functional benefits. With over 70,000 five-star reviews and 19% of global orders driven by word of mouth, our value proposition is strong and continues to resonate deeply with our customers.

Innovation is central to our business, demonstrated by the strong customer response to our SmoothFit women's line, which has significantly expanded our total addressable market. We are now facing at \$28.1 billion opportunity across Australia, the UK and the US. During FY24 we continued to build traction in our core markets and began to see green shoots in new markets including Canada and Germany, reflecting the global appeal of our offering. Key partnerships with Amazon and John Lewis have been instrumental in driving brand awareness in these newer markets, positioning us for further expansion.

The Board strongly supports Step One's strategy, in particular expanding our channels and products to diversify the Company's portfolio, while remaining dedicated to our core underwear focus in alignment with our vision. In FY24 we achieved revenue growth of 30% and EBITDA growth of 51%. Our women's line saw a strong increase of 54%, reinforcing the opportunity within our markets.

The Board remains focused on the long-term sustainability of the Group. In addition to ensuring rigorous risk management processes to ensure suitability of the Company, our ESG journey remains a top priority. Achieving Forest Stewardship Council certification underscores our commitment to sustainable and responsible sourcing.

We remain disciplined in our capital management approach with our 100% dividend payout reflecting our commitment to returning value to shareholders. The Board paid out an FY23 final dividend of \$0.05 in September 2023, followed by the FY24 interim dividend of \$0.04 of March in 2024 and FY24 final dividend of \$0.28 [sic - see Press Release \$0.028] in September. Looking ahead, we will continue to allocate surplus funds via fully franked dividends and assess capital needs annually.

As we enter FY25, the Board is confident in our strategy and the strength of our product offerings. We are well positioned to seize growth opportunities and expand into new adjacencies. Our solid fundamentals, adaptable supply chain and commitment to ongoing innovation in the innerwear category, has set the stage for further success. In closing, I would like to thank our Founder and CEO, Greg Taylor and the entire Step One team for their dedication and efforts. I also extend my appreciation to our shareholders for their continued support.

I will now hand over to Greg who will provide a more detailed update on Step One's financial and operational performance this year, as well as insights...

Greg Taylor: Apologies all, a small technical issue there. Thanks David and good morning all. I'm Greg Taylor, Founder and CEO of Step One Clothing Limited. FY24 was another record year for Step One, underpinned by our innovative, functional products, strong strategic partnerships and our exceptionally loyal customer

database. In August, we released our 2024 Annual Report. From this report, you'll note that our revenue increased by 30% to \$84.5 million. EBITDA rose 51% to \$18.1 million and our gross margin grew to 80.8%. We've also seen significant growth in our customer base, up 23% to 1.67 million, with an average order value rising 7.1% to \$96. Notably, women's revenue has surged by 54%, making up 14% of total revenue. We finished the year in a strong financial position with a cash position of \$39 million and zero debt.

I'd like to call out a few highlights from the FY24 period. 30% of all orders now contain at least one women's product, reflecting the appeal of our brand not only to our male customers, but our new female product lines. Our international growth continued to surge in FY24, the UK up over 33% and the US up over 260%, fuelling total business growth of 30% as mentioned. Finally, 19% of global orders were driven most importantly by word of mouth. Australia led at 30%, the UK at 26% and the US at 4%. This is a really strong reflection of not only our product appeal, our customer experience and our growing brand awareness and loyalty.

Sustainability is integral to Step One, as evidenced by our commitment to our FSC certification, ensuring responsible sourcing across our entire supply chain. We are the first clothing company in Australia and the UK to receive this prestigious certification. From responsible forestry to home-compostable packaging, ESG remains a key focus and priority and we were proud to be the first signatory to sign on to the Fashion Forever Green Pact.

Our 2024 Annual Report provides more information about sustainability, including first-time reporting on emissions, as well as partnerships that contribute positively to society as per the next slide, Growth Partnerships. Our partnerships continue to deliver strong brand outcomes, as shown by our collab with Surf Life Saving Australia, which raised over \$250,000 and attracted 8,000 new customers, of which 23% of those who have already returned to become Step One customers.

The success in this partnership provides a blueprint for future agreements we can implement in any market. In Q1 FY25 we deployed two new agreements, with STEPtember and Police Legacy. This strategy allows us to support not only important causes we are passionate about, whilst offering a cost effective customer acquisition model for the business.

Earlier in the year we sponsored the 2024 SailGP race in Sydney and we created branded product for the event which sold out in days. The appeal for us was SailGP's focus: powered by nature. Their focus on sustainability aligns with our values and its demanding, high-performance nature, made our chafe-resistant, sweat-wicking products a perfect fit for all the athletes competing in these challenging hot conditions.

In FY24 we also partnered with an esteemed UK retailer, John Lewis & Partners. Positioning our brand alongside other leading global names, we are in active discussions with John Lewis to bring our products not only online, but in store on shelves, in Q2 FY25. This initiative will introduce the tactile experience for our product for our customers, making our first move to a physical retail environment noting D2C will remain our

priority. This has the potential for increased brand exposure and awareness, which aligns very well with our growth strategy.

Additionally, we launched our athlete ambassador program this year, beginning with the likes of Jimmy Spithill, Jason Cadée and DJ Vasiljevic. The program aligns athlete's interests with Step One's sustainability commercial goals. Within six months, prominent athletes including Chris Lynn, Gretel Tippet, Jamie-Lee Price, Olympian Will Magnay, Olympic bronze medallist Nathan Sobey and Xavier Cooks, NBL MVP. Step One currently now has over 50 athletes who are personally invested into the Company, creating authentic content and connecting us to their over one million engaged followers. This really proves their belief in not only the Company, but the product.

We will continue to drive profitability through key vectors, including expanding our women's line and adjacencies, balancing both profit and growth. Our strategy focuses on five pillars of profitable growth: functional products; direct to consumer partnerships; and a capital-light model; a loyal customer base; an ESG focus, all managed with profitable growth. The success of this strategy is reflected in our women's growth of 54%, increased TAM, or total addressable market and strong revenue in EBITDA growth. With 63% of our customers being repeat buyers over the year and our conversion rates reaching nearly 5%, it is clear that our approach is driving not only loyalty, but profitability.

Step One is fully equity funded with zero debt obligations, leveraging our D2C model that benefits from strong relationships with our loyal customer base, our capital-light structure through outsourced processes and importantly, scalable operations, which allow us to maintain efficiency while access to world-class manufacturers and contract warehousing provides both flexibility and growth potential.

Since our last market update, we have continued to innovate via the expansion of our women's line with the introduction of our bralette and our boyleg, broadening our product offering and enhancing customer appeal. We have also established a new partnership with Police Legacy around Australia, set to boost our brand visibility with additional partnerships in the pipeline. We also recently launched our women's product in the US, further expanding our market reach and TAM.

Looking ahead, we have further product innovation plans and we look forward to updating you on our progress in the coming months. Our next iteration is to produce a juniors range which will be available in January. Our focus remains on profitable growth in existing markets whilst testing new markets. We have proven the effectiveness of our partnership model and our athlete shareholders enhance our brand credibility and exposure. While we remain optimistic about future growth, there is always uncertainty predicting the future, so this time we are not providing any guidance.

FY24 was a great year, marked by both growth and profitability. Revenue increased 30%, EBITDA up 51% and our women's category increased by 30%. With a 100% dividend payout, we are confident in our business model and outlook.

Thank you very much for your time and I'll now hand back to our Chair, David Gallop, for the formal business.

David Gallop: Thanks very much Greg and well done. 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 on all resolutions. Voting for all resolutions will remain open until five minutes after the end of the meeting. You may submit your live vote at any time before then. The 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 the 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 up your question.

Secondly, verbal questions can be asked using the web telephone, which can be accessed by shareholders online by clicking the Go To Web Phone button the computer screen, entering your name and then following the further prompts. Questions relevant to the business of the meeting will either be read aloud to me or moderated by the phone and we will seek to address your questions during the 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 a [unclear] 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. The first part of the business is to receive and consider the Financial Report, the Directors' Report and the Auditor's Report for the financial year ended 30 June 2024. There will be no vote on this item. It is a discussion item only.

Crystal 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 would be pleased to field 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: We are showing no questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are no questions online, Chairman.

David Gallop: If there are no questions, I will move to the next item of ordinary business. Resolution 1 relates to my re-election. I will ask Kate Thompson to act as Chair for consideration of this item.

Kate Thompson: Thank you, David. David's biography is included in the Notice of Meeting. The resolution and 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: We are showing no questions at this time.

Kate Thompson: Are there any questions online?

William Hundy: There are no questions online.

Kate Thompson: If there is no discussion, I now put to the meeting Resolution 1. Please record your vote online. I will now hand the chair back to David.

David Gallop: Thank you, Kate and well done. Our next resolution, Resolution 2, relates to the Company's Remuneration Report for the financial year ended 30 June 2024. The Remuneration Report is contained in the Company's 2024 Annual Report available on our investor website. The resolution and 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: We are showing no questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are no questions online, Chair.

David Gallop: If there is no discussion, I will now put to the meeting Resolution 2. Please record your vote online.

Our final item of business is Resolution 3, which is a special resolution that relates to the reinstatement of the proportional takeover provisions in the Step One constitution. The proportional takeover provisions are a standard type of provision that enable shareholders to vote on a proportional takeover bid before it can proceed. Under the *Corporations Act* this power must be spelled out in the constitution and must be renewed every three years or else it expires. It is now being put for approval to enable it to have effect for another three years. It will require reapproval in 2027 if it is approved today.

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: We are showing no questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are no questions online, Chair.

David Gallop: If there is no discussion, I will now put to the meeting Resolution 3. 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 the 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: We are showing no questions at this time.

David Gallop: Are there any questions online?

William Hundy: Chairman, there has been one question from a shareholder online, which I will read. Will Step One ever make investments into things that build up an income-producing asset base like property?

David Gallop: Well thank you for the question. Investment in property is not something that the Company is currently contemplating.

William Hundy: There are no further questions, Chair.

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 2024 AGM for Step One closed. I take the opportunity to thank you for attending today and for your continued support.

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