Company: **Step One Clothing Limited (STP)**

Date: **12 November 2025**

Time: **11:00 am AEDT**

[START OF TRANSCRIPT]

David Gallop: Well, 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 2025 Annual General Meeting. It's now just after 11:00 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'm joined online by my fellow Directors, Greg Taylor, Founder and Chief Executive Officer, Kate Thompson, Non-Executive Director, Michael Reddie, Executive Director, and Rick Dennis, Non-Executive Director. Also present today are Nigel Underwood, our Chief Financial Officer, William Hundy, our Company Secretary, Crystal Gangemi, and our Audit and Assurance Partner from Auditor, Grant Thornton, 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 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 Country and honour their continued connection to their culture for many millennia. We acknowledge Elders past and present and thank them for providing 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'll 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 the opportunity to ask further questions not directly related to the respective resolutions.

I want to begin by acknowledging what has been a challenging 12 months for Step One and the broader retail sector. Sustained pressure on household budgets across all markets has fundamentally shifted consumer behaviour. Discretionary spending has been cautious, with customers showing a clear preference for promotional offerings and heightened price sensitivity.

In this environment, we delivered revenue of $86.9 million, up 2.8%, and net profit after tax of $12.6 million, up 2% on the prior year. These results reflect both the difficulty of current trading conditions and the resilience of our business model. While we had higher ambitions for the year, we've held our market position and continue to grow our customer base, which speaks to the underlying strength of the brand and business.

Our approach to building long-term value is underpinned by our four-pillar growth strategy and I'd like to update you on our progress across each pillar in this financial year. First, product innovation remains at the heart of everything we do. In FY25, we launched Cloud Mesh, a premium high-performance underwear range. We also broadened our women's offering, achieving revenue growth of 7.9% in this segment, which now accounts for 15% of total sales. The introduction of bralettes and expansion into adjacent categories reflect our ambition to become a significant part of our customers' everyday wardrobe choices, not just their underwear drawer.

Second, customer acquisition remained a key focus. Growing our customer base by 15% to reach 1,923,000 customers is a particularly pleasing outcome given the headwinds we faced. This growth has been driven by more sophisticated brand marketing, stronger social media engagement, and strategic partnerships. Each new customer represents an opportunity for incremental value creation through repeat purchases.

Third, channel diversification remains a key strategic priority. The expansion of our indirect sales channels has been notably successful, with revenue through these channels growing 53% to represent 8.2% of our total revenue. Our partnerships with Amazon and social commercial channels have matured, and our presence in John Lewis stores continues to provide valuable credibility and market insights in the UK. These channels complement our direct-to-consumer model, broadening our reach and gaining brand credibility with customers.

Finally, international expansion continues to be measured and deliberate. In Australia, we continue to grow, in the UK we intensified our efforts with encouraging results and in the United States we continue to lay groundwork for long-term growth. Our focus remains on sustainable, profitable growth rather than aggressive market share gains that will compromise margins.

As we look to FY26, management has commenced a comprehensive reset of our operational approach to position the business for improved performance. These initiatives address the lessons learned from FY25's challenging trading environment and focus on recalibrating our promotional strategy, optimising pricing and inventory management, and rebuilding brand investment to appropriate levels. Greg will outline these initiatives in his address, but the Board is confident that this reset establishes a clear pathway to margin improvement and renewed growth as market conditions stabilise.

Capital position and dividends. Step One closed the year with cash and financial assets of $33.1 million and no debt. This strong balance sheet provides optionality, enabling us to invest in growth opportunities while maintaining capacity to withstand further market volatility. The Board declared a final dividend of FY25 of $0.025 cents per share, fully franked, bringing total FY25 dividends to $0.068 cents per share. This represents distribution of 100% of earnings to shareholders.

Our capital allocation approach balances the return of surplus profits to shareholders through fully frank dividends where possible with the need to retain sufficient flexibility to fund strategic investments that drive long-term value.

In closing, I extend my gratitude to my fellow Directors for their counsel and the entire Step One team for their dedication throughout what has been a demanding year. To our shareholders, your continued support enables us to execute our strategy with confidence. The Board remains confident that the initiatives now underway will position Step One for a new momentum and sustainable growth as market conditions improve.

I will now hand over to Greg, who will provide a detailed review of our financial and operational performance and discuss our plans for FY26. Thank you.

Greg Taylor: Thanks, David, and good morning, all. I'm Greg Taylor, Founder and CEO of Step One Clothing Limited. I'll walk you through our FY25 performance, our operational response to market conditions, and the strategic initiatives we're implementing for FY26.

While I sought to drive strong growth, FY25 was more modest than I'd hoped. Challenging trading conditions across our key markets required us to recalibrate our approach. Despite these headwinds, our fundamentals remain strong, and our response demonstrates the agility that has defined Step One since inception.

In FY25 we delivered revenue of $86.9 million, up 2.8%, EBITDA $17.4 million, down 3.7%, net profit of $12.6 million, up 2%, cash and financial assets of $33.1 million, and no debt. We adapted quickly to challenging marketing conditions by deploying promotional periods strategically to align with consumer behaviour while managing our advertising spend efficiently. Average order values grew, but gross margins were impacted by the additional promotional activity required to maintain market share in a tough environment. This was a trade-off we navigated deliberately and thoughtfully.

At its core, Step One addresses a universal and recurring need. We have clearly created a consumer segment that understands and values sophisticated products designed to solve real-world problems. Our innovations, such as anti-chafe panels, breathable viscose, and our signature 3D pouch, solve genuine problems that customers experience every day. The evidence is compelling. We have accumulated more than 60,000 five-star reviews, and our repeat purchase rate sits above 60%.

This provides strong proof that our products resonate with customers and they continue to remain loyal to Step One. Our business model amplifies these advantages. We operate a capital light, direct-to-consumer model that gives us full ownership of the brand and a direct relationship with our customers. Our flexible and responsive supply chain enables us to innovate quickly, adapt to market signals and maintain the highest level of product quality while managing costs effectively.

The addressable market opportunity remains substantial. Innerwear is a daily necessity globally and we are well positioned through product quality, innovation design and independently certified sustainability credentials.

Looking forward to FY26, Step One continues to be guided by its profitable growth strategy. However, the retail landscape has become increasingly demanding, softening demand trends have driven heightened promotional activity across the sector requiring us to carefully balance market share preservation with margin management. In response we are refining our tactical execution and implementing a series of adaptive measures that reflect our ability to navigate difficult trading environments with agility and purpose.

Our key initiatives include pricing realignment to reduce average prices and adjust bundle discount structures, enhancing competitiveness and lowering barriers to attract new customers. A refined promotional activity approach to maintain participation in major sale events while applying a moderate site-wide discount to balance customer acquisition with margin discipline and protect margins on our best-selling products.

An inventory optimisation program that accelerates the clearance of sold moving items through dedicated clearance stages, targeted sale events, improving working capital efficiency. Brand investment acceleration to align global messaging around core product attributes and improve visibility across e-com, social commerce and AI-driven search platforms. A product development focus on new products and adjacencies, strategic collections and collaborations that expand category reach, limited edition colour releases and brand fitting colabs that strengthen our brand appeal and at the same time attract new customers.

These initiatives will shape our financial performance in FY26. We anticipate modest revenue growth, led by the UK market and supported by new product launches. Marketing investment will increase above FY27 levels to support brand building and customer acquisition. Personal costs will be higher year on year reflecting hires already made, with further recruitment limited in the current environment. Other operating costs are expected to arrive in line with inflation, or to support our key strategic priorities. Gross margins are expected to moderate toward the second half of FY25 levels as we clear slower moving inventory at promotional prices.

Earnings performance is expected to soften in the near term. However, we do remain confident that these measures will enable Step One to navigate current market conditions effectively, establish a stronger foundation for sustainable, profitable growth as conditions improve. FY26 EBITDA is expected to be in the range of $10 million to $12 million, reflecting our deliberate investment in brand building, product expansion, and inventory optimisation.

In the first quarter of FY26, we've been focused on executing these initiatives, including progressing our product pipeline. Several weeks ago, we launched our new women's period product, which has received very positive initial feedback. Within the last two weeks, we also launched our sock range, a natural adjacency that helps increase average order value. These new product releases reflect our commitment to solving real-world problems and delivering best-in-class innovative products. The range is sustainable, cost-of-living friendly, and aligned with consumer expectations around both performance and environmental responsibility.

As we move into the Black Friday and Christmas trading period following Singles Day, we're deploying a more strategic approach to discounting. Rather than applying across-the-board discounts, we're targeting deeper discounts specifically on slow-moving stock lines. This approach protects margins on our core high-velocity products while ensuring we clear inventory efficiently. These operational adjustments are not simply tactical measures to navigate current conditions.

They reflect our ongoing commitment to the long-term strategy we've articulated, building brand equity, diversifying our product range, and deepening our presence in core markets, whilst at the same time growing the lifetime value of our customer base. We have been thoughtful about promotion, disciplined about inventory, and strategic where we invest in brand building.

By maintaining this operational discipline, whilst investing smartly in brand and products, we are positioning Step One to accelerate when market conditions improve. We have a stronger brand and broader offering, a more engaged customer base and a proven track record of successfully navigating a difficult period. We've identified key opportunities to build brand awareness in areas that are a natural fit for Step One. These initiatives will help us grow our junior range, build credibility and tap into large, engaged databases.

Our first broad partnership launched recently with the National Basketball League alongside sponsorship of Basketball Australia's junior program. I would like to thank our Board for their counsel throughout the year and our team for their dedication, flexibility and commitment to excellence during what has been a demanding year. To our shareholders, your confidence in our long-term vision enables us to take a measured approach we believe will deliver lasting value.

Step One has a strong balance sheet, proven products that customers love and an adaptable business model. We are well positioned for the future and I remain committed to building lasting value for all stakeholders. Thank you for your time and I'll now hand back to David for the formal business.

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 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.

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 in 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 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 on the computer screen, entering your name and then following the further prompts. Questions that are relevant to the business of the meeting will either be read aloud to me or moderated via the phone, 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'll 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. 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 2025. There will be no vote on this item. It is a discussion item only. Crystal Gangemi from Grant Thornton is available take questions about the conduct of the audit, the Auditor's Report, the accounting policies adopted in the financial statement and the auditor's independence.

We would 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: No phone 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 further questions I'll move to the next item of ordinary business. Resolution 1 relates to the election of Catherine Thompson as a Director of the Company. Catherine'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: No phone questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are no questions online, Chair.

David Gallop: If there's no further discussion, I now put to the meeting Resolution 1. Please record your vote online. Resolution 2 relates to the election of Rick Dennis as a Director of the Company. Rick'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: No phone questions at this time.

David Gallop: Are there any questions online?

William Hundy: There is a question online, Chairman, from Stephen Mayne. The question is, is re-election candidate Richard Dennis planning to add to his 30,000 shares before next year's AGM? An investment worth $15,000 looks a bit light on, relative to his annual Board fee of $98,120 for a Company capitalised at $92.6 million. Also, are there any issues with serving on two listed online retailers, given Richard's position on the Cettire Board? Does he ever have to step out citing a conflict, or is it all upside from having a wider industry with no direct competition given the companies operate in different markets?

David Gallop: Thanks for the question, Mr Mayne. The Company doesn't have a minimum shareholding requirement for Directors and to that extent Mr Dennis' decisions on investment are matters for him. As it relates to his position on the Cettire Board, we've never had a situation where we've identified a conflict and as your question describes, we would say that there is some benefit in having his broader e-commerce experience as well as the other experience that he brings to our boardroom.

William Hundy: There are no further questions, Chairman.

David Gallop: If there's no further discussion, I will now put to the meeting Resolution 2. Please record your vote online. Our next resolution, Resolution 3, relates to the Company's Remuneration Report for the financial year ended 30 June 2025. The Remuneration Report is contained in the Company's 2025 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 questions on the phone?

Operator: No phone questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are no questions online, Chair.

David Gallop: If there's no further 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 of 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: No phone questions at this time.

David Gallop: Are there any questions online?

William Hundy: There are several questions online, Chairman. I'll read the first from Stephen Mayne. In the Company's experience, has coming out of the All Ordinaries Index in September had any discernible impact in terms of institutional shareholders selling the stock? What is our history in terms of index inclusion since the 2021 IPO, when we raised $81.3 million at $1.53 per share, implying a $287.6 million market capitalisation? Did any proxy advisors ever cover us and are any analysts covering us at the moment? Apart from the founder, which minority shareholders, if any, do we routinely engage with?

David Gallop: Thanks for the question. I'm going to hand the question to our CFO, Nigel Underwood.

Nigel Underwood: Thank you, Chairman. Thank you, Stephen. I'll break it up into four parts. Your first question relating to institutional shareholders. Institutional shareholders have a range of investment mandates. They will sell and buy shares in Step One based on a range of factors, which you will need to ask them about, but we can assume some investment mandates will relate to index inclusion.

The second question relating to index inclusion is, it's public information that we've never been in the ASX 300 index. S&P published their rebalance information regularly, which I can only point you towards it for your review. The third question regarding proxy advisors and analysts, we've not purchased any proxy reports, so we have no information or comment on this. As far as analysts go, we have Morgans, Bell Potter, Barclay Pearce Capital covering this, and we've informed shareholders of this on our investor relations website.

The last question about which minority shareholders do we routinely engage with, we'll post our results announcement, we do a public conference call, and following that we're usually hosted by a range of [unclear] analysts who invite shareholders which include institutional and large private investors in those Group briefings. I'll hand back to the Chairman.

William Hundy: Chairman...

David Gallop: Any further questions?

William Hundy: There's a further question from Paul Middleton. Why is there so much emphasis from management about challenging market conditions? Universal Store, an even more discretionary retailer than Step One, has grown margins and same store sales despite facing widespread industry discounting. Doesn't discounting erode rather than build brand equity? Did management make a mistake by under-investing in marketing and customer experience in recent years to advance greater brand loyalty, greater brand awareness and loyalty.

David Gallop: Thank you for the question. I'm going to ask our CEO, Greg Taylor, to respond.

Greg Taylor: Thank you for the question in relation to Universal Store. The first thing I'll point out is they're a very different business to us, being a physical retail business, and as we talked about, and in relation to our forecast and numbers, we put aside an additional $5 million in brand marketing investment to address this issue and further cement our brand and our products across our customer base, not only for new customers, but also building the brand loyalty and segment across not only Australia but also international markets.

Discounting, of course, does erode a brand value and a margin. We have addressed that and we've openly said that this is something that we've managed in response to consumer demand. For your final question was, did we underspend on brand? What we did is, and as we've mentioned is, we balance a very – have a very balanced approach to profitable growth. So, where we can invest in brand and we can invest in new customers, we do. We've signalled in the past when there's been times we've needed to focus on profit, we have. We've also signalled when we need to, when there's better market conditions, we can use that as a time to then use it to pull out our capital and grow our business and brand. a few questions. Thank you for your question.

David Gallop: Any further questions?

William Hundy: There's a further question from Stephen Mayne. As a Tabcorp Director who has seen best AGM practice in action, will Chair David Gallop undertake to emulate what Tabcorp does at its AGM by next year running a hybrid meeting at Step One Clothing where the proxy votes are disclosed early to the ASX along with the formal addresses and the poll results include the headcount data detailing how many of our shareholders, 3,097 shareholders, voted for and against each item. Also, will a copy of the AGM webcast be published on our website for the benefit of shareholders unable to watch live.

David Gallop: Thanks for the question, Mr Mayne. I'm dealing with the second bit first. We don't currently intend to do that, but we'll take it on notice. Similarly, in relation to the first part of your question, it's not a process that we've considered previously, and we will consider that for future meetings. Any further questions?

William Hundy: There is a further question, Chairman. I'll just read it. This is a question from Paul Middleton. Why has a share buyback not been instituted when a Company has ample cash reserves? It would send a clear signal to investors that not only is the stock meaningfully undervalued, but also that the business has significant upside. Does the Board of Directors believe the current market capitalisation of Step One to be fair?

David Gallop: Thanks for the question, I might ask our CFO, Nigel Underwood, to respond to that.

Nigel Underwood: Thank you, Chairman and thank you, Paul. We talk about capital strategy at each results release, the Board does consider it carefully and the various options available to them. At this stage the Board is comfortable that the capital strategy is correctly balanced, but I might add that the considerations also have to include liquidity of the stock and the trading, so at this stage there's no planned change to the capital structure, therefore no buyback to be announced. but it is something the Board regularly consider at each of their meetings. Back to the Chairman.

David Gallop: Any further questions?

William Hundy: No further questions online, Chair.

David Gallop: Okay. Well, that concludes the business of the meeting and I now declare the 2025 AGM for Step One closed. I want to take the opportunity to thank you all for attending today and for your continued support of the Company.

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