ASX Announcement
24 November 2023

Chairman and CEO's Addresses – Peter George & David Nenke
2023 Annual General Meeting
Friday, 24 November 2023 – 12:00pm AEDT

Chairman's Address

Calendar 2023 is fast drawing to a close and it's fair to say, it has and continues to be a challenging year.

As I shared in the Annual Report, results have been below expectations that had been set at the start of the financial year, fuelled by a difficult trading environment and increasing economic challenges putting pressure on consumers' discretionary spending.

The Company's revenue for the 2023 financial year was down 18% to $197.6 million.

The transition to the new Customer Fulfilment Centre had a major impact for the financial year both in terms of revenue and cost. Amongst other things, revenue was impacted as inventory levels were reduced to facilitate the transition between sites leading to an increase in shipping times and a reduction in sales. Costs, as you would expect, were exacerbated by running multiple sites in transition.

While the Company incurred after tax losses of $29 million, a large component was non-cash - with the derecognition of tax losses at $10.4 million and $7.2 million of accelerated depreciation of Lidcombe site assets. While not on the balance sheet, the tax losses will still be available to be used in the future.

Underlying EBITDA was also down significantly year-on-year.

Additionally, from a revenue perspective, Booktopia remains significantly ahead of pre-COVID levels demonstrated by the 5 year CAGR of 12% and we are doubling down on the opportunities we see in the market moving forward.

The biggest focus of the business in the 2023 financial year was the development of the new Customer Fulfilment Centre which is now up and running in South Strathfield.

This was an extremely complex project from start to finish and required significant management focus, effort, and capital to help complete it.

The capital raise of $9.3 million back in July was an important milestone in ensuring the investment into the infrastructure would deliver on business objectives.

David will talk further about this shortly, including the impacts on financial year 2023 and the foundations we have set for financial year 2024 and beyond.

Great focus has been placed on re-aligning the business to ensure it is set up optimally for success with the necessary level of overheads. Work continues to ensure the Company is operating in the most efficient and effective way in line with the business' projected revenue.

The initiatives in place will have a tangible positive impact on our financial year 2024 results.

With the transition to the new fulfilment centre, we had forecast this would impact performance in the first quarter of financial year 2024 in terms of both revenue and EBITDA and this is reflected in the results.

We are also cognisant of the continued challenging trading and market conditions as I mentioned earlier, which has curtailed our revenue expectations.

As we head into the festive period, the second quarter of the financial year is traditionally the busiest sales period of the year. And this week is an example of that with today being Black Friday heading into Cyber Weekend, which has become one of the biggest annual seasonal retail events in the calendar.

As such, while we're in the midst of this critical time, it is too early for us to form a view on whether this downturn in the 1st quarter can or cannot be recovered over the course of the year through the various revenue and cost initiatives being undertaken.

We will continue to monitor this closely.

The significant effort undertaken to transition operations between multiple sites and develop new future-proofed infrastructure was critical.

There were large costs incurred in both financial resource and capital allocation of staff associated with these tasks.

This body of work has had a significant impact on business operations and as a consequence, the financial performance, over the last two financial years.

However, it's important to note, that these costs have largely been incurred as one-offs and so should not have a material impact in subsequent fiscal years, allowing the business to move forward without carrying an ongoing burden.

These operational investments, while providing short-term challenges, will give the Company a much better foundation to move forward and to operate with much greater efficiency.

Additionally - and despite the tough market conditions - there are a number of initiatives that the Company is actively exploring to set itself up for the future with the intent to seize market opportunity.

We are cognisant it's a difficult period now but we are cautiously optimistic in our strategy for the road ahead.

I'll now hand over to David who will provide further commentary on the business performance.

Before I do, on behalf of the Board, I'd like to welcome David to his first AGM as CEO. It is worth noting that David was only present for less than 2 months of financial year 2023 but in the 6 months he has been in his role, he has already made a big contribution to the business direction and guiding the trajectory moving forward.

He will talk further on current trading, business strategy and outlook. David, over to you.

CEO Address

Firstly, as this is my first AGM presentation as CEO, I want to express my heartfelt gratitude to the exceptional team at Booktopia for their dedication and hard work throughout the year and relentless pursuit of excellence which I have seen since I joined.

Despite the rapidly changing landscape and numerous internal and external challenges, our team has remained focused on delivering an outstanding book-buying experience for our customers. This commitment to excellence is what will ultimately secure Booktopia's long-term success.

I also want to express my gratitude to our Board, our customers, shareholders, and partners for their unwavering support.

Now, I'd like to set the scene for where Booktopia stands as a business to expand on Peter's earlier points.

Like many retail businesses, especially in the e-commerce sector, we need to keep up with the constantly evolving demands of our industry, and respond to changes in consumer behavior.

We are continuing to make operational and efficiency improvements to maintain our commitment to customer satisfaction.

We continue to develop programs to attract customers to our site and to convert those visits into sales.

We are implementing cost rationalisation and margin optimisation measures and have consolidated our logistics operations into one modern facility to reduce costs and improve efficiency.

We've also raised capital to strengthen our financial position and focus on execution and delivering on our customer commitments.

Trading conditions in the first quarter of financial year 2024 remain volatile, with various economic challenges affecting businesses and consumers. For example, the Australian Book Market, which according to Bookscan, grew 4% in the first quarter of calendar year 2023, has experienced a 7% year on year decline for the July to September 2023 quarter.

We are acutely aware of the challenges that the market presents us but we have a strategy in place with contingencies built in, to find new ways and means to generate demand and deliver an uplift in product sales revenue.

As we have covered in our Annual Report and in previous market updates, the transition to our new Customer Fulfilment Centre has been a key strategic priority.

For a number of months during financial year 2023, we were managing three separate sites - the two existing sites in Lidcombe and Enfield as well as the new site in South Strathfield.

This meant increased costs particularly labour and rent during this time which impacted our financial year 2023 results. CFC labour costs per unit increased to $2.27 substantially above the cost in the previous year of $1.65.

The new site is now fully operational in time for the demand increases during the peak festive period which commenced this week and will continue for the next 3-4 weeks.

Achieving this feat did not come without its challenges and some were greater than anticipated, however, we remained on time and budget for delivery.

I am very proud of the work from our team and close business partners. A transition of this magnitude is never easy and, for most of the team, this was their first experience at such a significant capital project.

The costs we have incurred in the process of building the new facility have not been insignificant but these have all been necessary upfront costs and we can now look ahead where we have a facility operating at greater efficiency with a reduced cost per unit shipped.

This will have a positive impact on our EBITDA results in years to come.

Together with the challenging macro economic environment and soft book market, the move into the customer fulfilment centre had knock-on effects across a number of operational aspects. This impacted our sales revenue and EBITDA performance in Q1 2024.

Most notably, this included a significant reduction in inventory levels, which as previously mentioned, had an impact on sales. We have since rebuilt inventory back to a level required to meet demand.

We had incorporated most of these impacts into our plans for the year. For the first quarter of financial year 2024 revenue was down 29% compared to last year and underlying EBITDA is down from $1.5m last year.

We are already seeing greater efficiencies and an increased capacity to manage higher volumes of orders to expedite customer deliveries, which were two key business objectives that we sought the facility to deliver. These key business objectives support the business' future plan, in line with our mission: - to provide the best book buying experience for our customers.

Our customers' feedback is positive and our current NPS scores have increased and are now higher than the same time last year.

While it has been a difficult first quarter, we are laser focused on maximising impact for the remainder of the financial year.

As Peter mentioned, Q2 is naturally a very important quarter for us with Cyber Weekend, which officially kicks off today with Black Friday along with Christmas sales. In fact the next 3 weeks are our busiest sales and shipment weeks for the year.

This sale period will provide us with a barometer for the performance for the rest of the financial year.

For the festive season, we have invested in providing greater levels of inventory, getting us back to the levels we need, to ensure we have plentiful supply of popular products during this period. We are also investing to generate demand by optimising our paid advertising spend, improving the search engine optimisation for our website and continuing to create promotions that resonate with our customer.

We continue to be cost-conscious and are continually reviewing our performance and identifying where and how we can further increase efficiencies.

booktopia
Australia's local bookstore

We are particularly concerned with the negative growth in the book market and difficult retail environment.

As we prepare for the second-half, we have completed a further business review which has identified further savings to our cost base across our business operations.

These savings are in addition to the $12 million projected in improvement in earnings from FY2024, as previously shared. We will share more details on this in due course.

As we look ahead, our commitment to putting customers first remains unwavering. Whether it's ensuring the quality of our shipped products or providing personalised recommendations to reduce decision anxiety, we will always strive to deliver the best outcomes for our customers.

I mentioned in my closing remarks in the Annual Report that the year ahead is about focusing on core elements as well as going back to basics, focusing on – our website, inventory, brand, personalisation and providing an unparalleled destination for Australian and New Zealand readers.

Our mission is to provide the best book-buying experience, and delivering on these basics is crucial to achieving that goal.

There is significant potential for the business within the book and wider gifting market and we are supremely focused on the opportunity at hand to move the business forward into a position which will set the foundations for a prosperous future.

Authorised for release by Peter George on behalf of the Board

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