

Best & Less Group Holdings Ltd

Value proposition shining through

Best & Less Group Holdings Ltd (ASX:BST) is a leading 'value apparel speciality retailer' with a particular focus on baby and kids wear (~50% of revenues). The group has 245 stores under the Best & Less brand in Australia (183 stores) and Postie brand in New Zealand (61 stores). The group's core customer is value-conscious 18–54-year-old women with children <17 years of age, comprising an estimated 4.2m households across Australia and New Zealand. BST listed in July 2021, essentially a sell down by owner Allegro of 46.2m shares (37%), with 25.6m to the public as part of the IPO at \$2.16/share and separately 20.6m shares to BBRC at \$1.94/share. BBRC Chairman Brett Blundy subsequently took a seat on the BST board. FY22 sales declined 6.2% while EBITDA, EBIT and NPAT declined 12.5% due to over 9,600 lost trading days due to COVID and weather-enforced store closures. Despite supply chain cost pressures, the gross margin increased 20bps to offset some of the like-store sales decline of 0.7%. A final dividend of 12cps brought the full-year total to 23cps for a dividend yield of 8.8%. Like most retailers, BST inventory levels closed well above FY21 as the sector looks to avoid supply chain delays. No guidance was provided for FY23 given the cycling of volatile trading conditions in a rising interest rate and cost-of-living environment. BST has some protection given a relatively even profit contribution half to half.

Business model

BST operates a vertically integrated, omni-channel retail model with ~86% of products designed in-house and distributed under its own brands through the group's store and on-line networks. The group broadly retails clothing and footwear with a particular focus on baby and kids wear with a 'good, better, best' ranging strategy. Growth avenues include further store openings (target of 15-25 new stores), growing the on-line presence (currently ~11% of total sales currently), improving gross margins which are lower than most vertically integrated retailers, and increasing share in the womenswear category where it already has a captive customer.

Cycling contrasting halves in FY23

H1 FY22 earnings were impacted by store closures, which boosted on-line sales at the expense of locked-down stores. Early like-for-like (LFL) sales reflect a reversal of these trends with store LFL sales +8% and on-line LFL -29% in the first eight weeks of trading, with these trends likely to continue until October. H2 FY23 will see the cycling or more normalised conditions in a higher interest rate environment, resulting in some caution around trading conditions. However, the company points to its specialty value offer and low selling price as reasons for resilience in an environment it expects to drive customers towards value.

Speciality retail comparables and competitors

Listed peers are small-cap speciality omni-channel retailers with gross margins between 40% and 50% and include The Reject Shop (ASX:TRS), footwear retailer Accent Group (ASX:AX1) and Baby Bunting (ASX:BBN). Interestingly, BST has a significantly higher own-brand mix than this peer group. TRS and BBN could also be considered competitors, along with value apparel retailers such as Cotton On and Uniqlo, and discount department stores Kmart, Target and Big W. Currently, consensus earnings for FY23 imply PER multiples <10x for most of the peer group due to caution over the retail trading environment given higher costs of living and interest rates.

Historical earnings and ratios (in A\$m unless otherwise stated)

Year end	Revenue	EBITDA adj.*	NPAT adj.	EPS adj. (cps)	PER adj. (x)	EV/EBIT. (x)	Dividend (cps)	Div. Yield (%)
06/19a	608.7	23.0	13.8	0.11	21.1	12.7	n.a.	0.0
06/20a	625.0	27.0	16.1	0.13	18.1	10.8	n.a.	0.0
06/21a	663.2	71.6	47.0	0.37	6.3	3.6	n.a.	0.0
06/22a	622.2	62.5	41.1	0.33	7.2	4.2	0.23	9.2

Source: Company data; *EBITDA, NPAT and EPS adjusted for one-time, non-cash items

Specialty Retailing

9th September 2022

Share Details

ASX code	BST
Share price (8-Sept)	\$2.36
Market capitalisation	\$296.4M
Shares on issue	125.4M
Net cash at 30-Jun-2022	\$36.7M
Free float	20.9%

Share Performance (12 months)



Upside Case

- Gross margin benefits from better sourcing
- Utilisation of balance sheet for acquisitions
- Consumer spending holds up better than expected

Downside Case

- Can't recoup higher input costs (lower GP%)
- Consumer spending slows more than expected
- Increased discounting in a competitive sector

Catalysts

- AGM trading update
- Signs of market share gains in womenswear

Comparable Companies (Aust/NZ)

The Reject Shop (ASX:TRS), Accent (ASX:AX1), Baby Bunting (ASX:BBN)

Board and Management

Jason Murray	Non-Executive Chairman
Fay Bou	Non-Executive Director
Colleen Callander	Ind. Non-Executive Director
Stephen Heath	Ind. Non-Executive Director
Brett Blundy	Non-Executive Director
Melinda Snowden	Ind. Non-Executive Director
Rodney Orrock	CEO

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FINANCIAL SERVICES GUIDE

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