

Adairs

FY20 Results Presentation

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FY20 highlights

COVID-19 has highlighted the resilience of our model and strength of our brands

Omni-channel strategy drives record sales

- ▶ Group Sales +12.9% to \$388.9m
- ▶ Group online sales up 110.5% to \$124.2m - now represents 34.8% of total sales¹
- ▶ Adairs online sales up 61.4%; Mocka sales up 30.4%²
- ▶ Stores sales -7.3% with LFL store sales +3.9%³

Gross Margin and EBIT sharply higher ⁴

- ▶ Adairs (ex Mocka) underlying Gross Margin up 226bps to 61.4%
- ▶ Group underlying EBIT up 39.7% to \$60.7m
- ▶ Adairs (ex Mocka) underlying EBIT up 24.3% to \$54m or 15% of sales

NPAT / EPS

- ▶ Statutory NPAT +19.0% and EPS +17.3% to 21.0 cents per share

Mocka acquisition

- ▶ Mocka brand performed well since acquisition and during COVID-19
- ▶ FY20 Sales and EBIT above expectations despite low inventory levels during Q4

Supply chain strategy

- ▶ DC strategy confirmed with DHL operated capital-light model selected and on track to be operational July 2021
- ▶ Strategy to deliver annualised cost savings of c.\$3.5m p.a. from FY22

Strong balance sheet / clean inventory

- ▶ Net debt of \$1.0m (down \$7.2m), despite borrowing of \$48m to acquire Mocka
- ▶ Inventory is clean and stock turns improved

Dividend

- ▶ Final dividend of 11.0 cents per share (100% franked) has been declared (8.0 cents in FY19). Represents 72% of the second half underlying net profit after tax

Note 1: After annualising Mocka's 30-week contribution. **Note 2:** Annual sales growth for information only. Mocka was not part of Adairs in FY19. **Note 3:** For the period of COVID-19 related store closures, LFL sales growth has been calculated on a store by store daily basis (where only stores open on the same day in each corresponding period have been included). **Note 4:** Analysis is after removing the impact of AASB 16 (Leases).

FY20 in review

Pre COVID-19 (Jun 2019 – mid March 2020)

- ▶ Until mid March Adairs was tracking ahead of expectations
- ▶ Strong 1H: LFL Sales +6.9%, Online +29.9%/LFL Stores +2.4%
- ▶ Supply chain in China rebounded well to COVID-19 closure

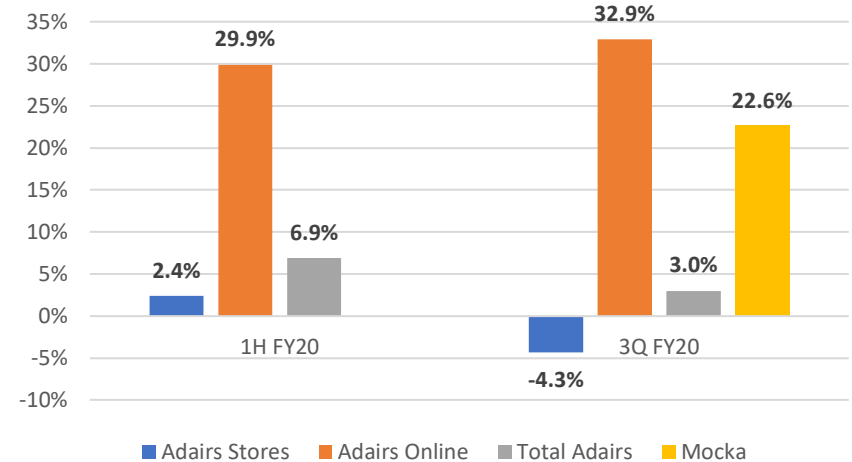
COVID-19 period (mid March 2020 – mid May 2020)

- ▶ COVID-19 onset in mid-March was sudden and necessitated moving rapidly to an online only model
 - all stores closed¹ and Mocka NZ closed
 - all store and non-core support office team stood down
- ▶ Moved to cash preservation mode
 - interim dividend cancelled / landlord rents deferred / inventory orders cancelled or deferred / remuneration cuts to Board & Exec team / all other costs minimised
- ▶ Online sales more than tripled, Adairs up 228% and Mocka Australia up 139% in April
 - 30% of customers were new to Adairs during this period
- ▶ Govt subsidies reduced cash burn and supported income of team who were stood down or working reduced hours

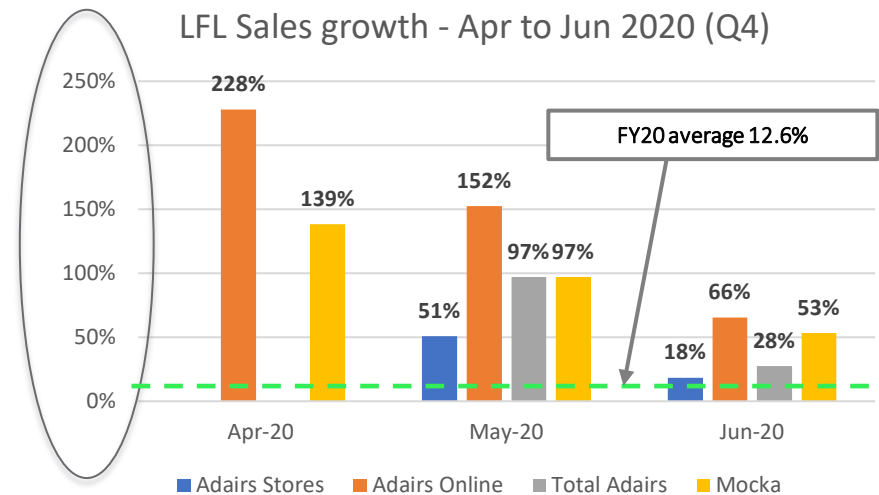
Stores re-opened (mid May 2020 – end June 2020)

- ▶ Stores began re-opening after 6 weeks in stages – all open by 1 June 2020
- ▶ Very strong LFL store sales after reopening combined with online remaining elevated (Total LFL Sales +28% in June)
- ▶ FY20 results represent an outstanding team effort and highlighted the benefits of our omni channel approach

LFL Sales growth - 1H20 & Jan-Mar 2020 (Q3)



LFL Sales growth - Apr to Jun 2020 (Q4)



Note 1: NZ stores closed 24 March to 13 May. AU stores closed 30 March and re-opened progressively from 7 to 29 May.

Profit and Loss

Record sales and profit

- ▶ Group underlying EBIT up 39.7% to \$60.7m
 - ▶ Adairs EBIT up 24.3% to \$54m
 - ▶ Mocka contributed \$6.7m (30 weeks)
- ▶ Group underlying EBIT margin up 299 bps to 15.6%
- ▶ Group Sales +12.9% despite 5-8 weeks of store closures
 - ▶ Online sales up 110.5% to \$124.2m and 31.9% of total sales
 - ▶ Store LFL sales up 3.9%²
- ▶ Adairs Gross Margin +226bps to 61.4% benefiting from coordinated
 - ▶ sourcing and retail pricing initiatives
 - ▶ reduced depth of markdowns
 - ▶ c. 30 fewer storewide promotion days
- ▶ Costs well controlled
 - ▶ Gov't wage subsidies benefit of \$5.3m
 - ▶ Rent and salary cost ratios down due to store closures during Q4
 - ▶ Increased investment in digital advertising to drive sales
- ▶ Statutory EBIT of \$59m +35.6% and NPAT of \$35.3m +19.0%
 - ▶ EPS +17.3% to 21.0 cents

(\$ Million)	Adairs			Mocka	Group	
	Underlying FY20	Underlying FY19	Change (%)	30-Week Contrib.	Underlying FY20	Change (%)
Online Sales	95.2	59.0	61.4%	29.0	124.2	110.5%
Store Sales	264.7	285.4	-7.3%	-	264.7	-7.3%
Total Sales	359.9	344.4	4.5%	29.0	388.9	12.9%
Online % of Sales	26.5%	17.1%		100.0%	31.9%	
Gross Margin	221.2	203.8	8.5%	15.0	236.2	15.9%
Online freight costs	(10.7)	(6.7)	58.6%	(3.4)	(14.1)	109.2%
Gross Profit	210.5	197.1	6.8%	11.6	222.1	12.7%
CODB	148.6	146.0	1.8%	4.9	153.5	5.1%
EBITDA	61.9	51.1	21.0%	6.8	68.6	34.2%
Depreciation	7.8	7.7	2.0%	0.1	7.9	3.1%
EBIT	54.0	43.4	24.3%	6.7	60.7	39.7%

% Sales

Gross Margin %	61.4%	59.2%	+226 bps	51.8%	60.7%	+154 bps
Gross Profit %	58.5%	57.2%	+125 bps	40.1%	57.1%	-12 bps
CODB %	41.3%	42.4%	-109 bps	16.8%	39.5%	-292 bps
EBITDA %	17.2%	14.8%	+234 bps	23.3%	17.6%	+280 bps
EBIT %	15.0%	12.6%	+239 bps	23.0%	15.6%	+299 bps

Note 1: Underlying FY20 v FY19 analysis is after removing the impact of the costs associated with the Mocka acquisition and AASB 16 (Leases). See Appendix 4 for reconciliation

Note 2: Store LFL sales adjusts for store closures due to COVID-19 (5-8 weeks in April/May 2020)

Statutory	FY20	FY19 ³	Change (%)
EBIT (A\$m)	59.0	43.5	+35.6%
NPAT (A\$m)	35.3	29.6	+19.0%
EPS (cents)	21.0	17.9	+17.3%

Note 3: AASB 16 (Leases) did not apply in FY19.

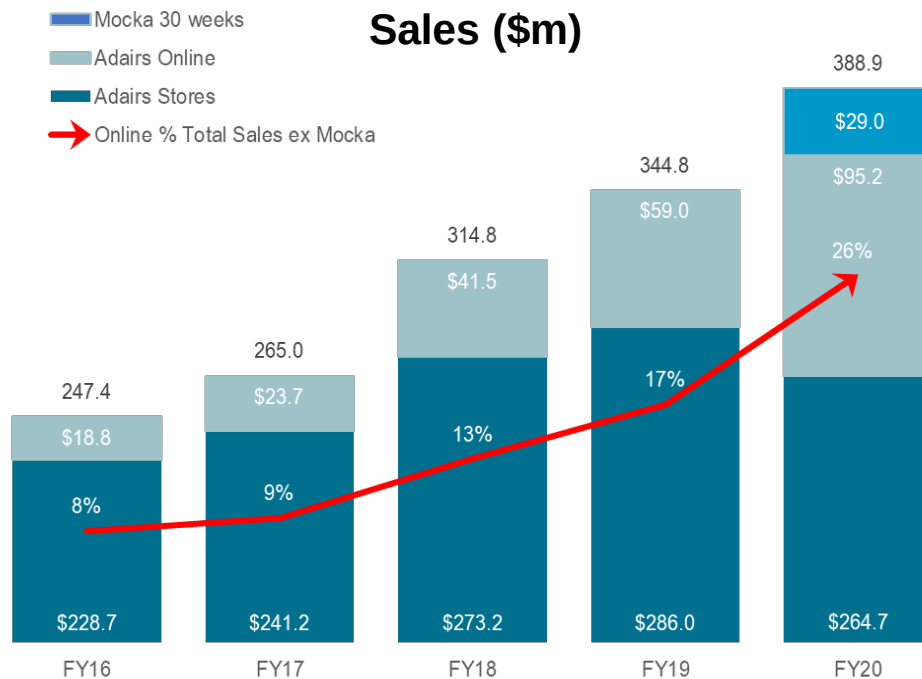
Strong sales/margins with all channels profitable

- Sales growth continues to be strong with online now representing c.35% of total group sales on an annualized basis
- Adairs and Mocka both have attractive margins
- All of our channels deliver strong contributions

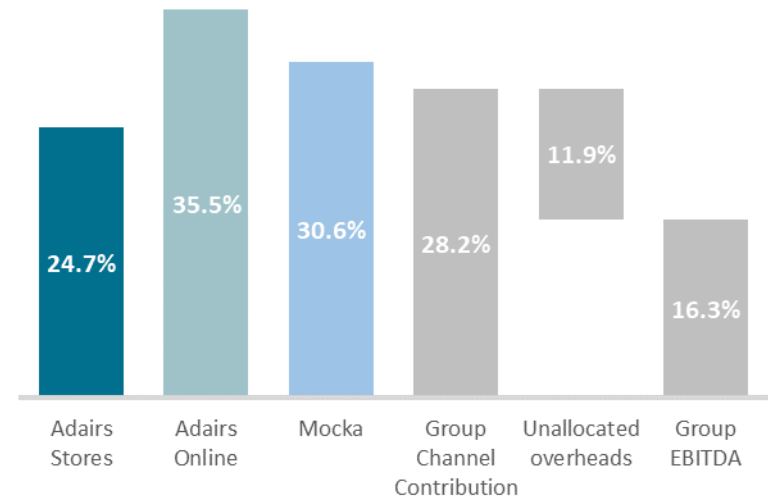
Online contribution = Online GP less all online distribution costs, customer support office wages/rent and marketing (other than in-store marketing).

Stores contribution = Stores GP less store labour, rents and in-store marketing

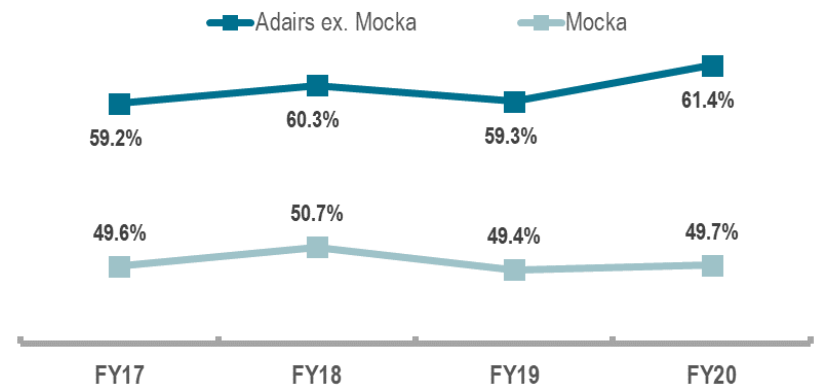
Unallocated overheads = executive management, product design & development, warehousing & support office team



FY20 contribution margin by channel (excludes JobKeeper wage subsidy)



Gross Margin¹



Note 1. Mocka margin is annual unaudited. Adairs acquired Mocka in December 2019.

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Capital Management

Strong balance sheet

- ▶ Inventory is clean and stock turns have improved
- ▶ Adairs inventory down \$7.8m to \$35m (-18%)
 - Active stock management at onset of COVID-19
 - Strong sales since stores re-opened
- ▶ Mocka inventory \$8.4m
 - c.20% below “normal” levels
 - Sales well ahead of expectations
- ▶ Rebuilding inventory in both businesses but normalized stock turns expected to be improved
- ▶ Net debt \$1.0m (down \$7.2m v FY19)
 - Borrowings of \$48m for Mocka in December almost fully paid down by strong free cashflow
- ▶ More than \$90m of available credit facilities available until March 2023
- ▶ We remain comfortably within our existing covenants¹
 - Debt² / EBITDA ratio 0.93 times
 - Fixed Charge Cover Ratio 2.64 times

Cash flow

- ▶ Strong underlying growth in operating cashflows
- ▶ Additional borrowings of \$48m to fund the acquisition of Mocka and related costs in December 2019

Capex

- ▶ \$7.5m annual capex in line with recent years
 - 5 new stores
 - 4 upsized stores
 - 2 refurbished stores
- ▶ Continuing investment in digital platforms

Dividend

- ▶ The FY20 Interim dividend was cancelled at the beginning of the COVID-19 business disruption to preserve cash
- ▶ A fully franked Final dividend of 11.0 cents per share has been declared, representing 72% of the second half underlying net profit after tax
 - Record Date: 10 September 2020
 - Payment Date: 24 September 2020

Note 1: Covenants excludes the impact of AASB16 Leases

Note 2: Debt includes bank borrowings and deferred purchase consideration

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Strategy
update

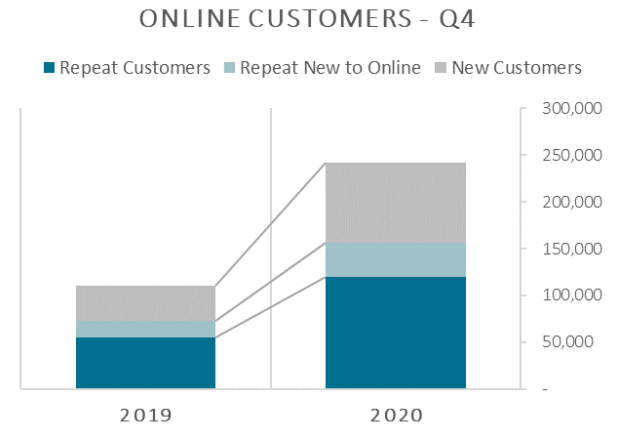
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Adairs – Omni channel strategy delivers growth and cashflow

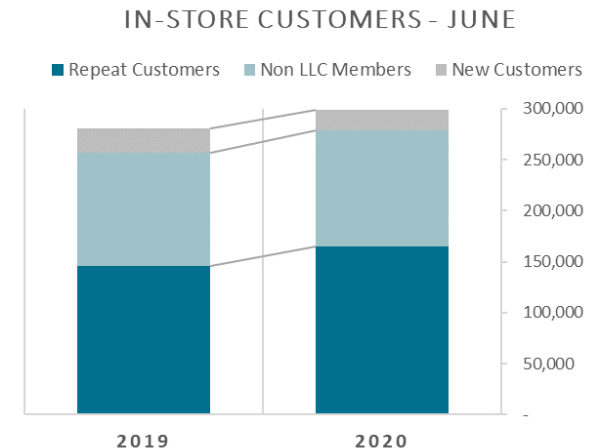
COVID-19 has accelerated Adairs online penetration and growth rate with long term benefit to be realised as new customers return and shop both our channels.

- ▶ The combination of stores and online delivered FY20 sales growth despite the impact of COVID-19
- ▶ As more customers become “omni” in their shopping preferences we expect to win online market share as seen in Q4.
 - Significant increase in new online customers +124%
 - 15% of sales were to existing customers shopping online with Adairs for the first time – new omni customers
 - Over 30% of sales during the store closure period were to new customers
 - Material upside remains given 63% of our Linen Lover members have not shopped Adairs online
- ▶ Engaged Linen Lover members drove store sales upon their re-opening
 - We were able to communicate directly with individual members as their preferred store re-opened
 - Repeat customers in store up 13% in June
- ▶ Well placed for trend to continue as COVID-19 accelerates customers shift to omni-channel yet highlights importance of stores and online

1 *Strong online customer growth*



2 *Some Customers love to shop in store*





“Home” is better with Stores

Inspiration and discovery

- ▶ Curating a home is a process of discovery, inspiration and change
 - best done when items can be readily viewed alongside each other
- ▶ Customers often don’t know exactly what it is they are after in terms of look
 - searching the web can overwhelm
 - curation and co-ordination are features of our channels

Customer service

- ▶ An experienced, customer-friendly store team can
 - create / inspire customer’s vision
 - deliver a personalised and tailored experience
 - help cross-sell and add value
 - increase sales conversion and loyalty
- ▶ Majority of Linen Lover sign-ups and renewals occur in-store
- ▶ Stores provide additional customer service options

It’s the real thing

- ▶ Being able to touch and feel a product is very important to many Home customers
 - allows them to better assess quality and visualize how the product will look in their home
 - Stores bring products and looks “to life”
 - Customers can browse instore and shop online, and vice versa

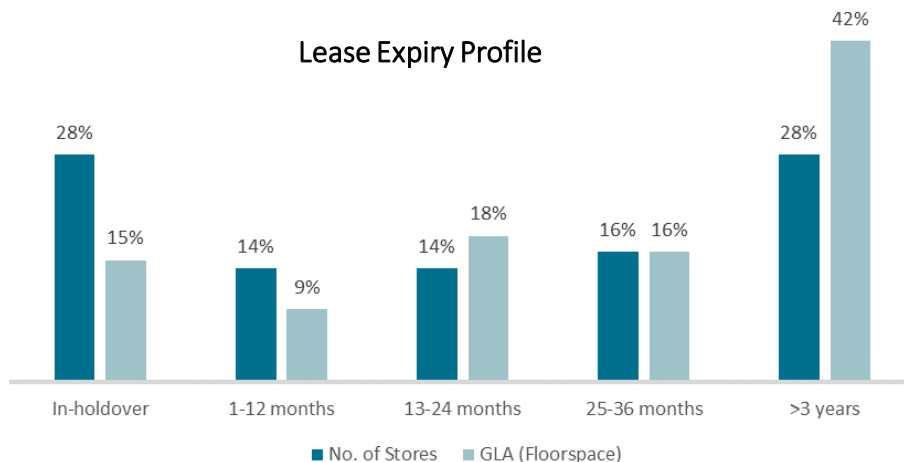
... and our Stores are an asset that performs

1 Our store formats are profitable with strong margins

Store Format	Stores	% Store Sales FY20	Contribution margin
Adairs Homemaker	51	45%	~30%
Adairs Regular	92	45%	~25%
Kids / UHR / Outlet	24	10%	~10%
All Stores	167	100%	25%

2 We have deliberately created a flexible store portfolio

- ▶ 72% of store leases expire within 3 years



3 Allows us to strategically manage our stores

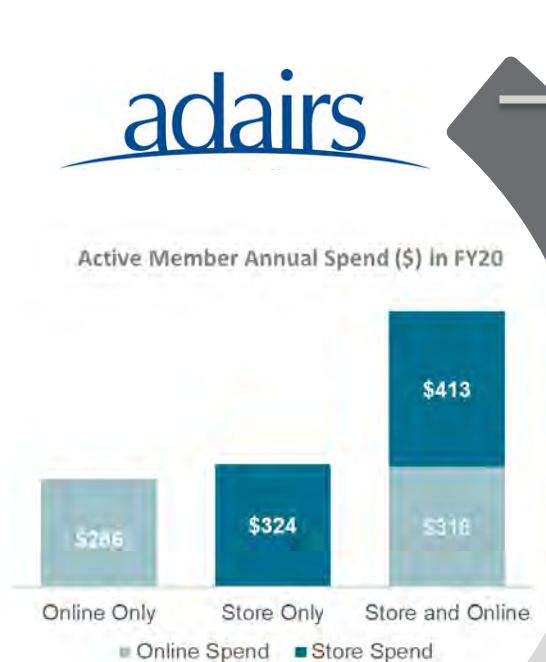
- ▶ open new stores, with an emphasis on larger stores, where the business case is supportive
- ▶ continue to upsized stores
 - ▶ upsizing a store delivers c.10% increase in contribution margins
 - ▶ considerable pipeline with potential for another 20-30 upsized stores
- ▶ obtain more favorable commercial terms on lease renewals
- ▶ close stores that do not meet our return hurdles or are no longer considered strategic/core



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Loyalty is important: 800k+ engaged Linen Lovers

Customers that engage with Adairs on multiple channels *make purchases more often* and *spend more with each purchase* than those who only engage via only one channel



Improved Customer Experience

- ▶ We gain a complete understanding of each customer
- ▶ Allows personalisation of the customer relationship

Improved Loyalty

- ▶ Personalisation builds a relationship, which in turn drives loyalty
- ▶ Channel freedom (ease of shopping) is another loyalty driver

Customer Diversification

- ▶ Different channels create different leads and opportunities
- ▶ Not all customers are omni but we seek to and can capture them all

Channel Optimisation

- ▶ Adairs values all channels equally
- ▶ Moving to empower our customers to shop any way, anywhere, any time they choose

Our Linen Lovers

loyalty program further complements our omni model:

- ▶ >800k highly engaged members
- ▶ 3yr CAGR of +14%
- ▶ Accounts for 75% of Sales (ex Mocka)
- ▶ ATV is 1.5x higher than non-members
- ▶ Personalises our relationship
- ▶ Significantly enhances our knowledge of the customer
- ▶ Members pay for their membership - implied commitment to shop at Adairs again ...and
- ▶ Delivers real value for our members!

Omni is a true customer centric model – retail is driven by customer preferences

Mocka

Adairs acquired Mocka in December 2019.

Mocka is:

- *online pure-play*
- *vertically integrated*
- *home and living products designer and retailer*
- *operating in Australia and New Zealand*

FY20:

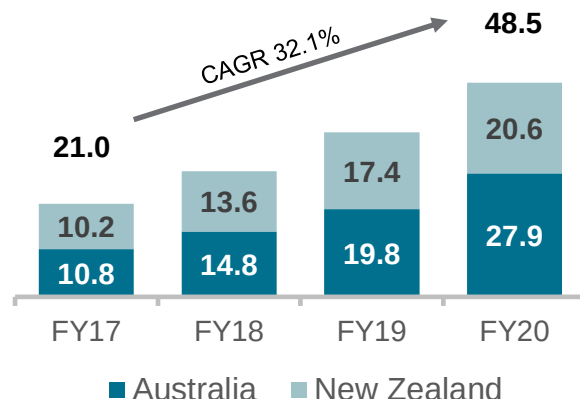
- ▶ 880k website visits / 6.4m page impressions
- ▶ 185k active customers / 415k email subscribers

- ▶ Exclusive product offering
- ▶ In-house design / Coordinated signature look
- ▶ Full pricing control / Full supply chain control

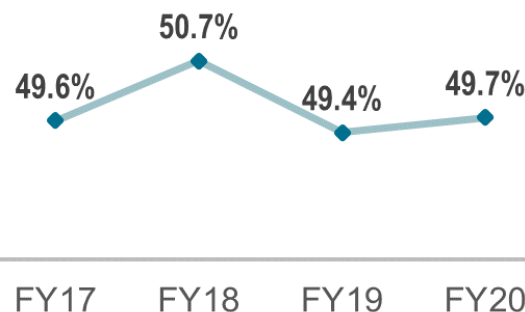
Delivers

With a history of ...

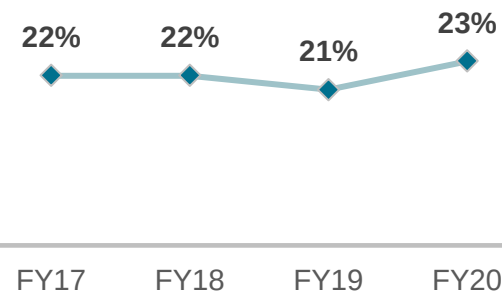
1 Attractive sales growth (NZ\$m)¹



2 Strong Gross Margins¹



3 Superior EBIT margins¹



COVID-19 has accelerated Mocka's brand recognition and growth rate, particularly in Australia where website visits and sales have doubled since April and have remained elevated

Note 1. Mocka information is annual unaudited. Adairs acquired Mocka in December 2019.

Future growth - The drivers

Our current business model is proven, resilient and offers material scope to grow

1 Proven and resilient business model

Strong brands (that we own and control)

- ▶ Lower cost of customer acquisition and retention
- ▶ Brand and product exclusivity
- ▶ Higher margins

Large and loyal customer base

- ▶ >800k paid up Linen Lover members
 - 3-yr CAGR 14%
 - Highly engaged - visit more often and spend more each visit than non-members (account for 75% of Adairs sales)
- ▶ Increasing investment in customer data analytics to further enhance returns from this program

High exposure to online growth

- ▶ Adairs online sales +61.4% and Mocka +38.8% in FY20²
- ▶ ~35% of group sales are now online or omni (after annualising Mocka)
- ▶ Winning share as customers transition to online/omni

Vertical supply chain

- ▶ Greater control (range/quality/cost/timing)
- ▶ More agile and responsive to changing markets
- ▶ Significantly higher gross margins / profitability

Note 1: Store omni sales include sales of stock not ranged in the store and fulfilled from the central warehouse

Note 2: For information only. Adairs acquired Mocka in December 2019.

Future growth - The drivers



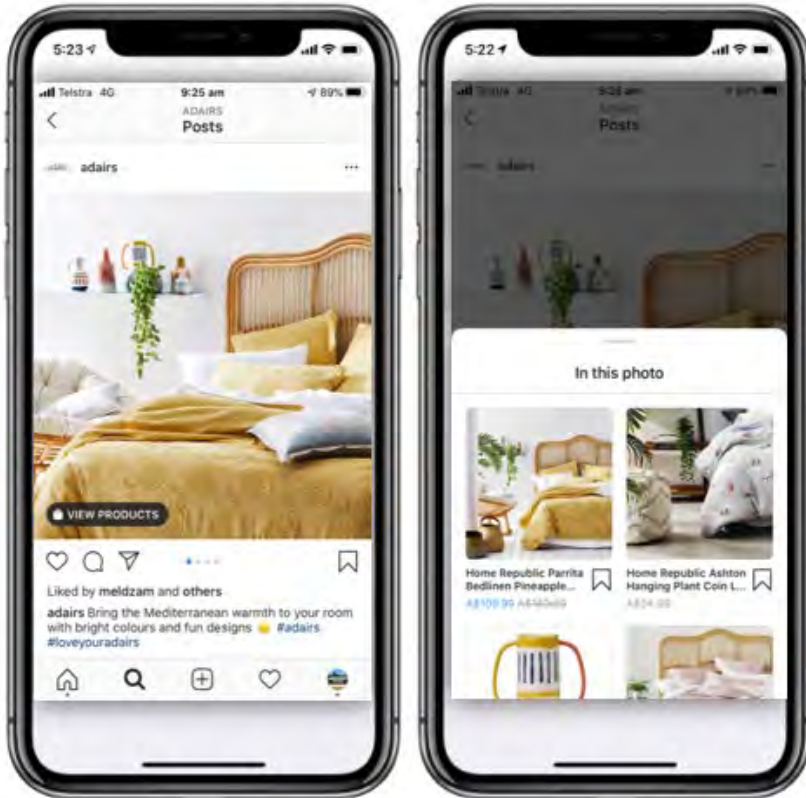
Our stores are key to being omni and retain significant growth potential

2 Profitable store formats

- ▶ All Stores are profitable with relatively short lease terms
- ▶ Larger stores more profitable. Significant upsizing opportunities remain within the portfolio
 - showcase more products / categories
 - drives increased store contribution
- ▶ Profitable new store opportunities remain
- ▶ Provide a valued and trusted engagement point with our customers

Future growth - The drivers

Our digital strategy was the engine room for growth in FY20 and this will continue well into the future



mocka

3 Digital transformation

Development of our digital channel

- ▶ Accelerating our digital transformation through additional investment in customer acquisition, customer experience, platform and team
- ▶ Adairs/Mocka cross-learning, benefitting both
- ▶ Omni customers are the most valuable

4 Mocka growth

- ▶ Australian brand awareness is growing rapidly
- ▶ Cross-promotion opportunities being trialled
- ▶ Expansion of Australian warehouse facilities being fast-tracked to support growth
- ▶ Low market share in a very large category
- ▶ Product category expansion
- ▶ Capitalising on increased search activity during COVID-19

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Future growth - The drivers



Our new NDC will assist in enabling our digital strategy and delivering profitable growth for the next decade

5 Omni Supply Chain Strategy

New National Distribution Centre

- ▶ DHL to operate – we will focus on customers and product
- ▶ Faster and more efficient deliveries – direct or via stores
- ▶ c.\$3.5m cost savings p.a. from FY22

Investing in:

- ▶ Single view of inventory
- ▶ Digital integration allowing customers to shop how they choose
- ▶ Enhanced delivery options

Future growth - The opportunity for our Brands

We have a very large addressable market in Australia

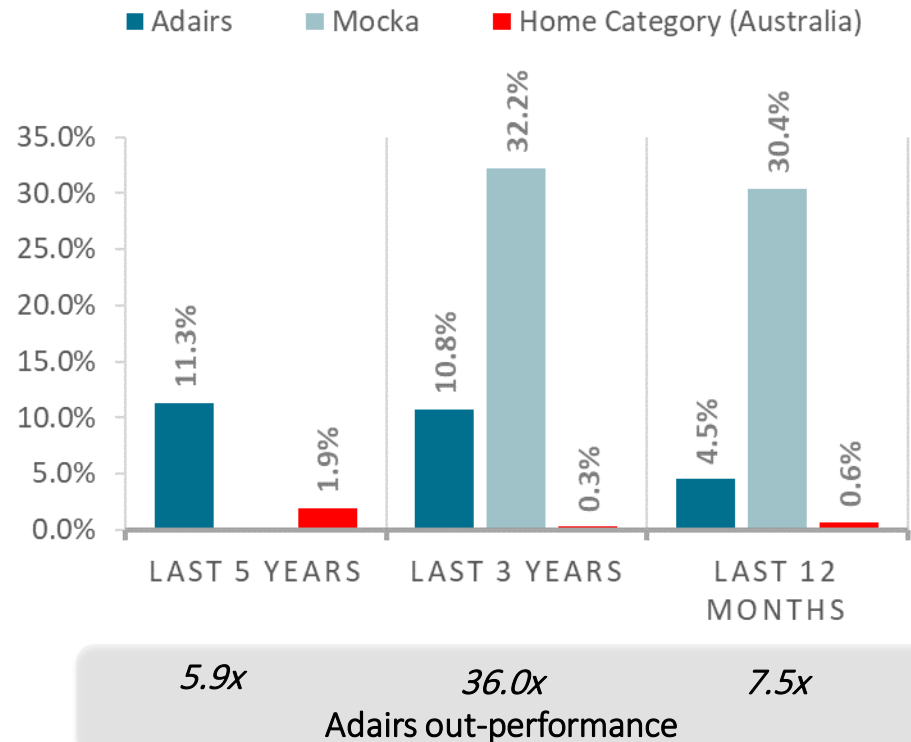
- ▶ online is expected to move towards 15%-20% of category sales in line with overseas experience
- ▶ being omni-channel means the entire market is open to us
- ▶ the opportunity in both channels is significant

Market size	A\$billion
Australian Home Furnishings	13.9
Less:	
Excluded categories ²	2.0
Total Addressable Market (TAM)	11.9
Australian Sales – Adairs & Mocka	0.4
Implied market share	3.2%

Source: Euromonitor International, Home Furnishings and Homewares System 2018, Adairs

... and we have a strong record of growing market share

Sales CAGR – Adairs/Mocka v Market (Home³)



Source: ABS (Retail Turnover by category, Time Series A3349863W), Adairs

Note 1: Comprises Home Textiles, Indoor furniture, Mattresses, Blinds & Curtains, Outdoor furniture, Barbeques, Lighting and Homewares

Note 2: Excluded categories comprise Mattresses, BBQ's and Blinds/Curtains (not target markets for Adairs)

Note 3: ABS data comprises Furniture, Housewares, Home Textiles and Floor coverings.



FY21 Outlook

Trading and hedging update

For the first five weeks of FY21 Adairs recorded the following sales (over the same period in FY20):

- ▶ Group Total Sales +32.3%
- ▶ Adairs Online sales +103.2%
- ▶ Stores sales +18.6% with LFL store sales +15.8%
- ▶ Mocka sales +46.8%¹
- ▶ The Group is hedged at 0.70 with 75% cover for FY21

Store and National Distribution Centre update

- ▶ Adairs expects to open 3-5 net new stores and upsize 3-5 existing stores across Australia/New Zealand in FY21
- ▶ Construction of the NDC is underway and proceeding to plan

FY20 Guidance and outlook

- ▶ Given COVID-19 uncertainties the Board cannot provide FY21 guidance at this time
- ▶ COVID-19 has reminded Australians of the importance of a comfortable home (and home office) and is motivating strong spend in home improvement and home decoration.
- ▶ We expect this behavior to persist whilst COVID-19 remains a threat in our communities

1. For information only. Mocka was not part of Adairs until 1 Dec 2019

QUESTIONS?



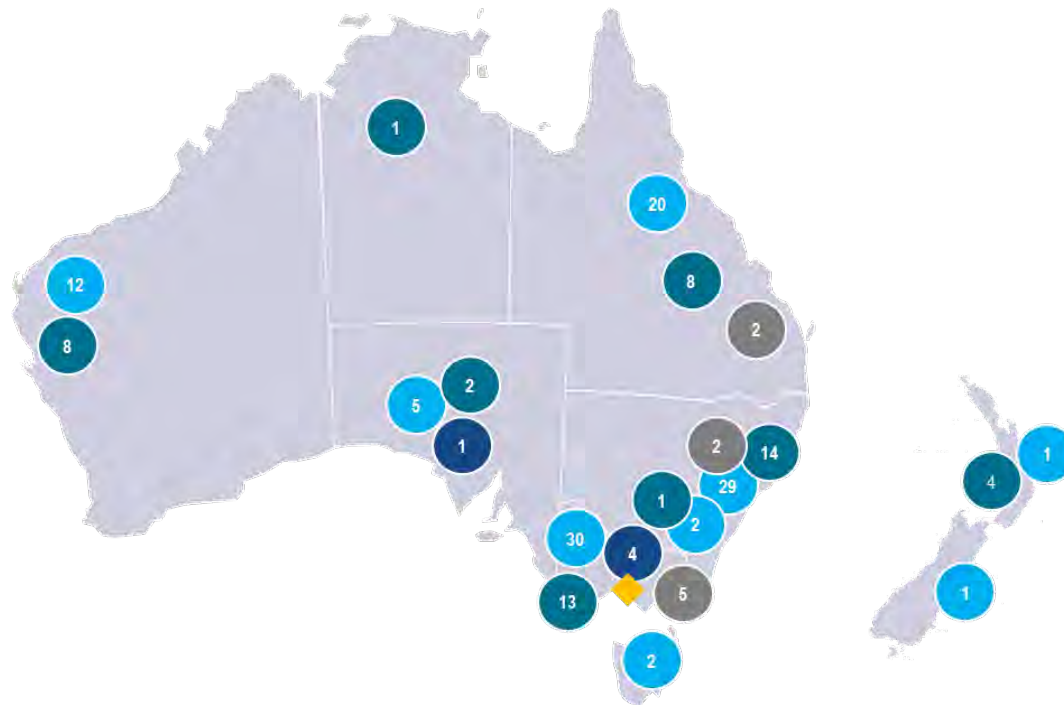
APPENDIX

1. Store footprint
2. Sales LFL history
3. Profit & Loss reconciliation
4. Balance Sheet reconciliation
5. Cashflow reconciliation



Appendix 1 – Store footprint

Total Stores: 167 (Jun 19: 165)



- 102 Regular stores (incl. outlets)
- 51 Homemaker stores
- 9 Adairs Kids
- 5 UHR
- ◆ DC and HQ

Store Activity (FY20)

New Stores (5)

Regular – Orange City Central, Northland

Homemaker – Shellharbour, Wairn Ponds

Adairs Outlet – Liverpool

Upsized and Refurbished Stores (4)

Regular – Indooroopilly

Homemaker – Newfarm, Helensvale, Bunbury

Refurbished Stores (2)

Regular – Geelong

Homemaker – Coffs Harbour

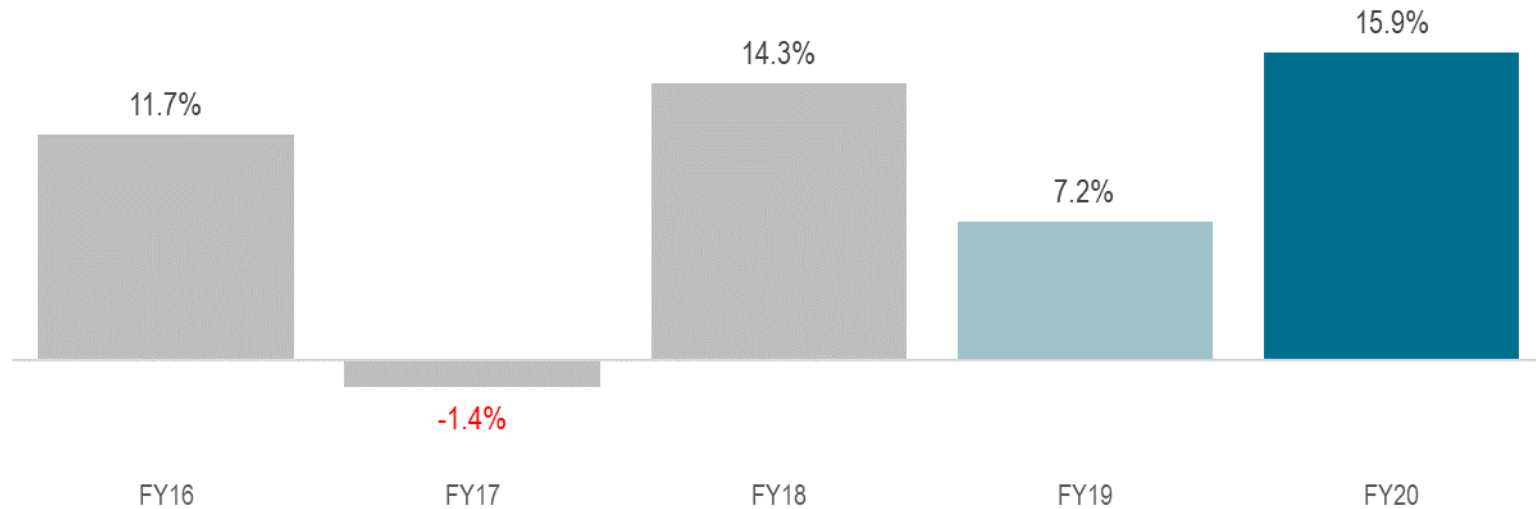
Closed Stores (3)

Regular – Armidale, Darwin

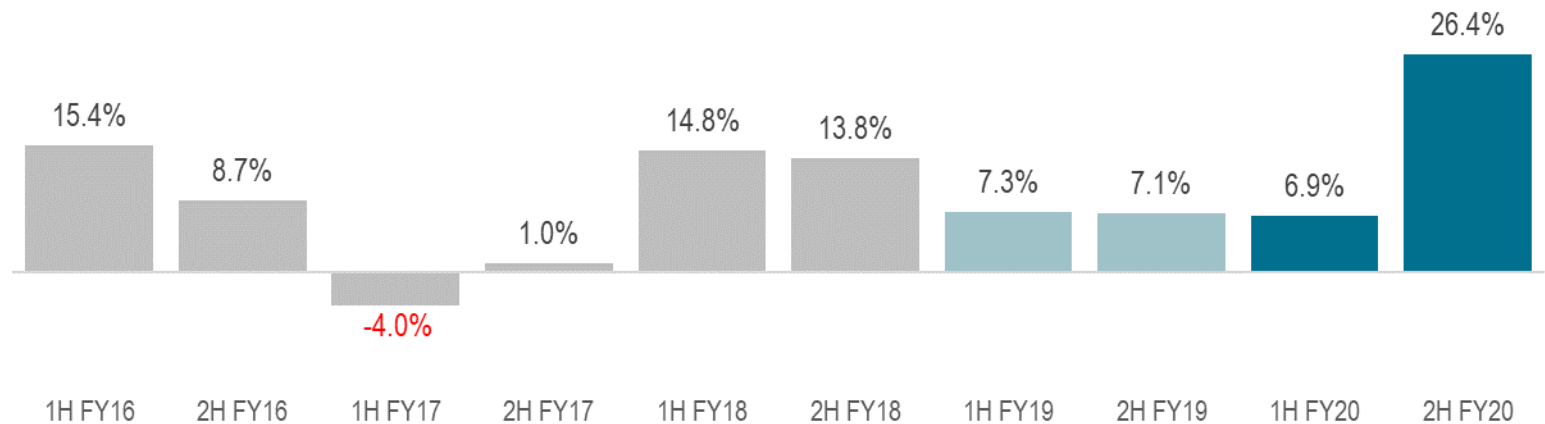
Adairs Outlet – Perth Harbour Town

Appendix 2 – Sales LFL history

Adairs LFL Sales Growth Last 5 Years



Adairs LFL Sales Growth Last 5 Years



Appendix 3 – Profit & Loss reconciliation

(\$ Million)	FY20 reconciliation					FY19
	Underlying FY20	AASB 16 Impact	Mocka trading	Mocka transaction costs	Statutory FY20	Statutory FY19
Sales	359.9		29.0		388.9	344.4
Gross Profit	210.5		11.6		222.1	197.1
<i>Gross Profit %</i>	58.5%				57.1%	57.2%
CODB	(148.6)	33.6	(4.9)	(3.9)	(123.9)	(146.0)
<i>CODB %</i>	41.3%				31.8%	42.4%
EBITDA	61.9	33.6	6.8	(3.9)	98.3	51.1
<i>EBITDA %</i>	17.2%				25.3%	14.8%
Depreciation	(7.8)	(31.4)	(0.1)	-	(39.3)	(3.8)
EBIT	54.0	2.2	6.7	(3.9)	59.0	43.4
<i>EBIT %</i>	15.0%				15.2%	12.6%
Interest	(2.0)	(4.2)	(0.0)	-	(6.2)	(0.7)
Tax	(16.8)	0.6	(1.9)	0.6	(17.5)	(6.4)
NPAT	35.2	(1.4)	4.8	(3.3)	35.3	29.6
EPS (cents)					21.0	17.9

Notes:

1. AASB 16 (Leases) impact: From FY20 Lease expenses removed from occupancy expenses and replaced with depreciation of lease assets and interest on lease liabilities over the relevant lease term
2. Mocka trading: 30 weeks of Mocka trading
3. Mocka transaction costs: Corporate Advisor, Accounting and Legal transaction expenses associated with the Mocka acquisition

Appendix 4 - Balance Sheet reconciliation

(\$ Million)	Jun-20 Underlying	Mocka	IFRS16	Jun-20 Statutory	Jun-19 Statutory
Cash and Cash Equivalen	13.7	10.2	-	23.9	16.7
Inventories	35.0	8.4	-	43.4	42.8
Plant and Equipment	20.3	0.5	-	20.8	20.9
Goodwill and Intangibles	195.8	0.2	0.1	196.1	113.5
Right of Use Asset	-	-	94.4	94.4	-
Other Assets	4.8	2.8	2.8	10.4	16.4
Total Assets	269.7	22.1	97.4	389.1	210.3
					-
Payables	33.5	2.1	(4.4)	31.3	29.7
Borrowings	24.9	-	-	24.9	24.9
Provisions	16.6	0.3	(6.8)	10.1	12.9
Lease Liabilities	-	-	114.6	114.6	-
Other Liabilities	65.4	2.2	-	67.7	24.5
Total Liabilities	140.5	4.6	103.4	248.6	92.0
Net Assets	129.1	17.5	(6.1)	140.6	118.3

AASB 16 Impact: Note that while AASB 16 impacts line items on the balance sheet it has no impact on net cashflows, credit profile, debt covenants or shareholders equity

Appendix 5 – Cashflow reconciliation

(\$ Million)	FY20 Statutory	AASB16	FY20 Underlying	FY19 Underlying	Change Underlying
Cash flows from operations	97.3	-26.9	70.4	35.0	35.4
Capital expenditure	-7.5		-7.5	-7.0	-0.5
Borrowings to acquire Mocka	48.0		48.0		48.0
Mocka acquisition, net of cash acquired	-42.5		-42.5		-42.5
Repayment of borrowings	-47.0		-47.0	0.0	-47.0
Other financing cash flows	-27.8	26.9	-0.9	-0.1	-0.8
Dividends paid	-13.3		-13.3	-24.1	10.8
Net cash flow	7.2	0.0	7.2	3.9	3.3

Notes:

AASB 16 Impact: The AASB 16 (Leases) impact is a reclassification of cashflows between operating and financing activities



Disclaimer

Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Adairs Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Adairs Limited.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.