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29 October 2024

Teju Vanam
Adviser, Listings Compliance
ASX
Level 50, South Tower, Rialto
525 Collins Street
Melbourne VIC 3000

Dear Ms Vanam

Response to ASX Aware Letter - Reference: ODIN102176

Adairs Limited (ASX:ADH) notes the questions contained in the letter from ASX of 24 October 2024 (ASX Letter) and responds as follows.

1. *Does ADH consider the following information, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?*

- a. A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.**

No.

- b. Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System (WMS) with sales up +16.1%.**

No.

- c. Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.**

No.

- d. Improved sales in Mock's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks**

No.



2. If the answer to any part of question 1 is “no”, please advise the basis for that view.

a. A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.

As ADH has not provided financial guidance for FY25 it monitors broker consensus numbers closely to ensure that the market's expectations for FY25 sales and earnings are in line (in material respects) with ADH's own projections.

ADH has historically provided a trading update for shareholders at its Annual General Meeting and continued that practice this year. Prior to the trading update provided on 24 October 2024, the consensus for FY25 Group Sales was approximately \$616.4m, which infers revenue growth of ~6.2% for the FY25 year (vs FY24 Group Sales of \$580.4m, on a 52-week basis). Therefore, the sales growth rate of 4.8% achieved in the first 16 weeks of FY25 is, notwithstanding the stronger growth achieved in weeks 9-16, approximately 1.4% below the growth rate required to meet consensus forecast revenue for FY25 of \$616.4m.

Following the trading update, consensus Group sales for FY25 and FY26 increased by approximately 0.3% and 0.2%, respectively, which would not reasonably be considered to be reflective of a materially price-sensitive change.

The Board is comfortable that consensus Group revenue for FY25 was in line (in material respects) with management's own projections **prior to** the trading update and continues to be so **post** the trading update.

ADH notes the share price movement following the release of the trading update. The Board's belief as at 16/17 October 2024, which remained the case at 24 October 2024, and continues to be the case today, is that the trading update information was not materially price sensitive because:

(1) The incremental information available on 16 October 2024 (i.e. 7 weeks of sales information) was considered immaterial relative to the information already known:

ADH had already disclosed that sales had turned positive, and trends were improving at the Adairs and Mocka businesses on 28 August 2024 as a part of the trading update provided in the FY24 results presentation and announcement. The Board considered the incremental information it had on 16 October 2024:

- was for a short period of additional time/trading (and this period also did not capture the most material trading periods in the year which will occur in weeks 18 to 26);
- followed a period of highly volatile trading in weeks 1 to 8, and this volatility had evolved and continued in weeks 9 to 15;
- was mixed by business and geography; and
- as a consequence, should be considered as a whole, interpreted or extrapolated with significant caution, and therefore was not materially price sensitive.



- (2) **Incremental information available to us on 17 October was supportive of the FY25 consensus for Group Revenue (i.e. not materially different):** The ADH Board did not think that the trading information available to the Directors was materially different to the market expectations as encapsulated in analyst forecasts for FY25 Group Revenue as at 16 October 2024. Their assessment of this matter appears correct, as analyst sales forecasts for FY25 have not shifted materially since providing the trading update on 24 October.
- (3) **Mixed performance across the ADH group:** The ADH Board considered the observed sales outcomes across the first 16 weeks, noting the results are widely varied by business unit within the Group - i.e. the encouraging performance in one business unit is being materially offset elsewhere in the group. The Board believed that investors would interpret the aggregate of these matters as not being materially price sensitive.
- (4) **Significant risks and uncertainty persist:** The Board is aware that a range of institutional investors and analysts currently perceive the Company as having elevated risk given the leadership changes, a new WMS rollout in progress, key seasonal trading periods for FY25 being yet to occur, and an uncertain consumer environment. Against this backdrop, while the Board could anticipate that certain aspects of the trading update would be seen as positive or encouraging, the Board did not expect the market to respond to the incremental information in a manner that suggests the information (taken as a whole) was material to the price at this time, as the perceived risks set out above are not materially changed by the information contained in the trading update.
- (5) **The trading results observed across short periods of time are volatile and the results observed can change quickly.** As at the end of week 15 (i.e. the information the Board had on 16 October 2024), YTD sales growth was +4.4%, which compares to an implied revenue growth rate of 6.2% to meet FY25 consensus (i.e. still some 180 bps below the growth rate required to meet forecast consensus revenue for FY25). Further, at the end of Week 12, the YTD revenue growth was just 2.6%. The growth we have seen across the YTD period has not been consistent or linear. The Board, therefore, exercises caution in providing information pertaining to short periods of trading as it can be misleading to the users of this information. We provide this information to investors at or around our AGM because it is customary for us to do so, and also a practice of most of our peers. The importance and materiality of the months immediately following the AGM was also emphasized in the FY25 Outlook slide in the AGM presentation to ensure shareholders understood the significance of the November / December sales period.

As at 16 October 2024, the Board and management did not believe the prospects for FY25 had changed materially from those already expected by the market as reflected in Consensus revenue. The Board considered the information available as at 16 October 2024 and discussed current FY25 internal forecasts with management. The Board concluded that the Consensus forecasts for FY25 and the internal information available suggested that the trading of the shares was occurring in a market containing all relevant information. The information provided in the trading update was consistent with the information the Board had on 16 October and therefore ADH did not expect the trading update to be materially price sensitive.



As at the end of week 16, 36 of the 52 weeks (i.e. 69%) of FY25 remains when measured in time — and due to seasonality of sales, a greater percentage remains (approx. 73-76% historically) when measured by sales rather than weeks. As the Outlook section of the trading update stated, the current quarter (Oct-Dec) is a key retail promotional period which will include important sales events such as the Adairs Linen Lover Event, Black Friday and Christmas. The financial outcome of these events, individually and collectively, can have a material impact on the sales and profitability of the Group in FY25.

ADH can only speculate as to the cause of the share price increase. Potential factors include:

- a view by investors that the macroeconomic environment is becoming more favorable to discretionary household expenditure.
- an acknowledgement by the market that ADH has been, and remains, one of the cheapest specialty retailers listed on ASX (on a relative P/E ratio basis). Even after the share price rally over recent weeks, ADH is (based on consensus FY25 EPS) trading on a PE ratio of c.11-12x which continues to make it one of the cheapest listed small-mid cap retailers, with the peer set ranging from 13-17 times FY25 earnings.
- a more positive sentiment emerging for the outlook of the Company reflecting specific factors already flagged to the market with the release of the FY24 results back in August 2024:
 - A return to positive sales growth in FY25 following a period of sales decline in FY24
 - the transition of the Adairs NDC to self-operation and implementation of a new warehouse management system continued to progress in a satisfactory manner – both of which were disclosed in some detail in the FY24 results announcement, and were **re-affirmed** in the trading update to be tracking satisfactorily (i.e. the perceived risk of potential 'a disaster scenario', that some other retailers have endured with similar projects, is gradually reducing with time and continued operation)
- the relatively illiquid nature of ADH shares due to a significant migration of the share register from institutional investors to retail investors during COVID can create significant share price volatility.

b. Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System with sales up +16.1%.

Eight weeks is a very short time period in the context of a 52-week year, and while the trend is encouraging, as set out in 2(a) above the most important sales period(s) for the Company in the financial year are yet to occur.

c. Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.

Mocka is the smallest of the Group's three businesses, accounting for less than 10% of group sales. Mocka's Australian sales account for less than 5% of group sales. The points made in 2(a) and 2(b) are equally relevant to this question.



- d. **Improved sales in Mocka's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks**

See response to 2(c).

3. ***Was ADH aware of the information referred to in question 1 above at the time it provided ASX with its Response to ASX Price Query?***

- a. **A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.**

No. The ASX Price Query was received on 16 October, and the trading update related to the first 16 weeks of FY25, ending on 20 October. While the Company was aware of the improving trend in sales, it did not regard this information as sufficient in quantum, consistency or duration to be materially price sensitive in the context of the market's (or its own) expectations for the reasons set out in 2(a).

- b. **Strong trading in the eight weeks [at Adairs] since the successful deployment of the new Warehouse Management System with sales up +16.1%.**

No, for the reasons provided in 3(a)

- c. **Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.**

No, for the reasons provided in 3(a), and mitigated by weakness in the New Zealand business, as discussed below.

- d. **Improved sales in Mock's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks**

No, for the reasons provided in 3(a), and noting that these trends remain challenging and material for the Mocka business unit.

4. ***When did ADH first become aware of the information referred to in question 1 above?***

- a. **A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.**

Sales information is provided to the Board as part of routine weekly sales reporting (typically sent to directors each week on a Monday evening). Specifically, week 16 reporting was provided on the evening of Monday 21 October 2024. Ahead of the Company's AGM on 25 October, a draft trading update was presented to the Board on the evening of 23 October 2024. The trading update announcement was approved and released to the market on 24 October. The Company did not regard the information contained in the trading update as material or likely to be materially price sensitive in the context of the market's (or its own) expectations for the reasons set out in 2(a). The trading update was provided with the 2024 AGM and in line with its practice in prior years.



- b. Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System with sales up +16.1%.**

As per 4(a) response.

- c. Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.**

As per 4(a) response.

- d. Improved sales in Mock's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks**

As per 4(a) response.

- 5. *If ADH first became aware of the information referred to in question 1 before the date of the Announcement, did ADH make any announcement prior to that date which disclosed the information? If not, please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe ADH was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps ADH took to ensure that the information was released promptly and without delay.?***

- a. A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.**

We note that on 24 August 2024, when its FY24 results were released to the market, ADH provided a sales update for the first 8 weeks of the 16-week sales period provided in the trading update provided to the market on 24 October 2024.

- b. Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System with sales up +16.1%.**

As per 4(a) response.

- c. Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.**

As per 4(a) response.

- d. Improved sales in Mock's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks**

As per 4(a) response.

- 6. *Please confirm that ADH is complying with the Listing Rules and, in particular, Listing Rule 3.1.***

We confirm that ADH is complying with the Listing Rules and, in particular, Listing Rule 3.1



- 7. Please confirm that ADH's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of ADH with delegated authority from the board to respond to ASX on disclosure matters.**

We confirm that the responses to these questions have been reviewed and authorised for release by the board of Adairs Limited

Yours sincerely

A handwritten signature in black ink, appearing to read "Mark Ronan". The signature is fluid and cursive, with the first name "Mark" and last name "Ronan" clearly distinguishable.

Mark Ronan
Managing Director and Chief Executive Officer



24 October 2024

Reference: ODIN102176

Mr Jamie Adamson
Company Secretary
Adairs Limited
2 International Court
Caribbean Business Park, Scoresby VIC 3179

By email

Dear Mr Adamson

Adairs Limited ('ADH'): ASX Aware Letter

ASX refers to the following:

- A. ADH's announcement titled "Adairs Limited FY25 Trading Update" (the 'Announcement') released on the ASX Market Announcements Platform ('MAP') at 8:51 AM on 24 October 2024 disclosing the following:
 - 1.1 A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.
 - 1.2 Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System with sales up +16.1%.
 - 1.3 Continued growth in Mocka's Australian sales with sales up +19.7% over the last 8 weeks.
 - 1.4 Improved sales in Mock's New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks.
- B. The change in the price of ADH's securities from \$2.32 immediately prior to the release of the Announcement to an intra-day high of \$2.67 (at the time of writing) following the release of the Announcement.
- C. ADH's letter of 17 October 2024 ('Response to ASX Price Query') in response to ASX's price query letter dated 16 October 2024 (both released on MAP on 17 October 2024) whereby ADR advised that it:
 - 1.1 was not aware of any information concerning it that has not been announced to the market which, if known by some in the market, could explain the recent trading in its securities; and
 - 1.2 will be holding its Annual General Meeting on Friday, 25 October 2024, and it is ADH's practice to provide a trading update at the meeting.
- D. Listing Rule 3.1, which requires a listed entity to immediately give ASX any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities.
- E. The definition of "aware" in Chapter 19 of the Listing Rules, which states that:

"an entity becomes aware of information if, and as soon as, an officer of the entity (or, in the case of a trust, an officer of the responsible entity) has, or ought reasonably to have, come into possession of the information in the course of the performance of their duties as an officer of that entity."
- F. Section 4.4 in *Guidance Note 8 Continuous Disclosure: Listing Rules 3.1 – 3.1B* titled "When does an entity become aware of information?"
- G. Listing Rule 3.1A, which sets out exceptions from the requirement to make immediate disclosure as follows.

“3.1A Listing rule 3.1 does not apply to particular information while each of the following is satisfied in relation to the information:

3.1A.1 One or more of the following 5 situations applies:

- It would be a breach of a law to disclose the information;*
- The information concerns an incomplete proposal or negotiation;*
- The information comprises matters of supposition or is insufficiently definite to warrant disclosure;*
- The information is generated for the internal management purposes of the entity; or*
- The information is a trade secret; and*

3.1A.2 The information is confidential and ASX has not formed the view that the information has ceased to be confidential; and

3.1A.3 A reasonable person would not expect the information to be disclosed.”

H. The concept of “confidentiality” detailed in section 5.8 of Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. In particular, the Guidance Note states that:

“Whether information has the quality of being confidential is a question of fact, not one of the intention or desire of the entity. Accordingly, even though an entity may consider information to be confidential and its disclosure to be a breach of confidence, if it is in fact disclosed by those who know it, then it is no longer a secret and it ceases to be confidential information for the purposes of this rule.”

Request for information

Having regard to the above, ASX asks ADH to respond separately to each of the following questions:

1. Does ADH consider the following information, or any part thereof, to be information that a reasonable person would expect to have a material effect on the price or value of its securities?
 - 1.1 A 4.8% increase in real-time sales for the first 16 weeks of FY25 compared to FY24.
 - 1.2 Strong trading in the eight weeks since the successful deployment of the new Warehouse Management System with sales up +16.1%.
 - 1.3 Continued growth in Mocka’s Australian sales with sales up +19.7% over the last 8 weeks.
 - 1.4 Improved sales in Mock’s New Zealand Sales with sales down -7.5% over the last 8 weeks compared to -15.6% in the first 8 weeks.

Please answer separately for each of the above.

2. If the answer to any part of question 1 is “no”, please advise the basis for that view.

Please answer separately for each of the items in question 1 above.

3. Was ADH aware of the information referred to in question 1 above at the time it provided ASX with its Response to ASX Price Query?

Please answer separately for each of the items in question 1 above.

4. When did ADH first become aware of the information referred to in question 1 above?

Please answer separately for each of the items in question 1 above.

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5. If ADH first became aware of the information referred to in question 1 before the date of the Announcement, did ADH make any announcement prior to that date which disclosed the information? If not, please explain why the information was not released to the market at an earlier time, commenting specifically on when you believe ADH was obliged to release the information under Listing Rules 3.1 and 3.1A and what steps ADH took to ensure that the information was released promptly and without delay.

Please answer separately for each of the items in question 1 above and provide details of the prior announcement if applicable.

6. Please confirm that ADH is in compliance with the Listing Rules and, in particular, Listing Rule 3.1.
7. Please confirm that ADH's responses to the questions above have been authorised and approved in accordance with its published continuous disclosure policy or otherwise by its board or an officer of ADH with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9 AM AEDT Tuesday, 29 October 2024**.

You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, ADH's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out above and may require ADH to request a trading halt immediately if trading in ADH's securities is not already halted or suspended.

Your response should be sent by e-mail to **ListingsComplianceMelbourne@asx.com.au**. It should not be sent directly to the ASX Market Announcements Office. This is to allow us to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in ADH's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to ADH's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure: Listing Rules 3.1 – 3.1B*. It should be noted that ADH's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.



Release of correspondence between ASX and entity

We reserve the right to release all or any part of this letter, your reply and any other related correspondence between us to the market under listing rule 18.7A. The usual course is for the correspondence to be released to the market.

Yours faithfully

ASX Compliance