



Release to the Australian Securities Exchange

Adairs Limited

Record sales and profitability accompanied by major strategic initiatives

Melbourne, 21 February 2020:

Adairs Limited (ASX: ADH) is pleased to announce its results for the 26 weeks to 29 December 2019 (1H FY20). During this period the Company delivered record levels of sales and profitability, together with a number of key strategic initiatives including the acquisition of Mocka, a profitable pure-play online retailer in a logical adjacency, and the finalisation of our domestic supply chain strategy.

1H FY20 (vs 1H FY19) snapshot ¹:

- Sales up 8.6% to \$178.9 million
 - Like for like sales growth +6.9% (online +31.6%, LFL stores +2.4%)
 - Online now contributes 18% of total sales (pre Mocka) and is expected to rise to 29% including Mocka ² in FY20
- Total stores at 169 with 5 new stores, 1 refurbishment and 1 upsize
 - Group gross lettable area (GLA) increased by 5.5% in 1H FY20
- Gross Profit up 9.0% to \$109.3 million; underlying gross margin up 20bps
- Underlying EBIT up 4.2%¹ to \$23.2 million
- NPAT up 4.2% to \$15.7 million
- Net debt increased to \$49.6m following the acquisition of Mocka
 - Strong free cashflow from Adairs allowed pre-Mocka debt to be reduced by \$15m
 - Post Mocka we remain comfortably within our existing debt covenants. Our Net Bank Debt / EBITDA ratio will remain at ~1x over the next 3 years.
- Interim FY20 dividend of 7.0 cents per share fully franked, to be paid on 16 April 2020 (6.5 cents per share in 1H FY19)

Commenting on the results, Adairs' Managing Director & CEO Mark Ronan said:

"The first half of FY20 was significant for Adairs with record levels of sales and profitability, the acquisition of Mocka and the finalisation of our domestic supply chain strategy. We continued to deliver above market sales growth with group like for like sales up 6.9% and online sales up 31.6% (excluding Mocka)."

¹ Unless otherwise noted, 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition in Dec 2019 and implementation of AASB 16 (Leases) which commenced in FY20. See Appendix 3 of the Investor Presentation for a reconciliation.

² Based on Adairs' assessment of Mocka's pro forma normalized full year contribution and the midpoints of Adairs' current guidance. Assumes a constant AUD:NZD exchange rate of 1.04.

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We have been fortunate that the impact of the bushfire disaster on our business has not been significant, however we have initiated a number of programs within our business to assist those communities affected.

Gross Margin

Gross Margin improved by 20bps to 61.1%. A coordinated program of sourcing and pricing initiatives combined with a focus on reduced depth of markdowns was able to more than offset the impact of a weaker Australian dollar. Managing our Gross Margin % will continue to be a key focus in 2H FY20 and beyond.

Omni-Channel Strategy delivering - Online sales +31.6% (pre Mocka) and stores LFL sales up 2.4%

Adairs omni channel strategies continued to deliver strong performance in the half with online sales increasing 31.6% over 1H FY19 to now represent 18% of total sales. Store LFL sales were up 2.4% for the half which, combined with an ongoing focus on store cost control, saw stores increase their profit contribution for the period. Our omni-channel strategy combining the strong engagement from our Linen Lovers members, our digital strategy and integrated inventory availability continues to maximise sales and customer service across all channels.

Underlying EBIT up 4.2% to \$23.2 million, and NPAT up 3.3%

Strong LFL sales growth and improved margin more than offset the increase in our cost of doing business (CODB) such that our EBIT rose by 4.2% to \$23.2m. The increased CODB reflected an increased investment in initiatives to support future growth across key areas of our business including our online platform and the executive leadership team, particularly in the areas of supply chain, digital and finance. Our CODB was also elevated by the increased costs associated with the interim supply chain measures introduced to handle our online growth. These costs will annualise in 2H FY20 and are now being well managed.

Balance sheet remains strong, interim dividend increased to 7.0 cents per share

With the acquisition of Mocka in December 2019 the composition of Adairs' balance sheet changed significantly. The upfront cash consideration (\$46.4m) was funded through an increase of Adairs group term debt facility which was also extended until March 2023.

After these changes we remain comfortably within our covenants. Our pro forma Bank Debt³ to Capital ratio sits at 33% while we expect our pro forma Net Bank Debt³ / EBITDA ratio will remain at ~1x over the next 3 years.

Our inventory is clean, increasing by \$3.5m (1H FY20 v 1H FY19) to support growth in select product categories, the addition of 6 new/upsized stores in the half which increased our GLA by 5.5%, and higher stock in transit ahead of Chinese New Year.

³ Excludes deferred Mocka consideration

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Given the strong operating cash flows and the good performance achieved in 1H FY20 the Board of Directors has set the interim FY20 fully franked dividend at 7.0 cents per share, with a record date of 2 April 2020 and a payment date of 16 April 2020.

Supply Chain

The strategic review of our domestic supply chain has now been completed and we are pleased to advise that Adairs has entered into a heads of agreement with DHL as its 3PL partner to operate a new purpose-built National Distribution Centre (NDC). The facility is expected to be available in early 2021, with operations to be fully transitioned by July 2021.

The NDC is a key component of our integrated omni-channel strategy to enable customers to shop Adairs how, where and when they choose. The new facility has will have the capacity and flexibility to support our business growth for the next 10 years across all channels. Consolidating our multiple DC operations into a single NDC will improve stock flow and online fulfilment, increase stock availability and improve service levels for both stores and customers during peak trading periods. The 3PL model will provide Adairs with a lower risk, low capital solution and is expected to provide annual savings of c.\$3.5m per annum over existing operations from FY22.

DHL are a global leader in the design, implementation, and operation of flexible warehousing and distribution solutions and were selected following a comprehensive review.

Until the NDC is operational we will continue to operate within existing facilities where capability and productivity improvements have been successfully implemented over the half to both lower our cost to serve and improve our customer experience. However, the step-change in both service and cost will only come as we transition to the NDC.

Mocka

In December Adairs announced its acquisition of Mocka, a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand. Mocka has a history of consistent strong sales growth and margins with high levels of profitability and cash generation combined with low recurring capex requirements and lease commitments.

For Adairs the acquisition has created a larger more diversified business with increased exposure to the fast-growing online channel. Adairs' online sales will increase from 18% of total sales currently to 29% in FY20 on a pro forma basis after normalising for a full year's contribution from Mocka.

The consideration was c.A\$81.8m⁴ with part of the consideration deferred for up to 3 years and dependent upon the level of its future earnings. The acquisition is expected to deliver normalised earnings accretion of approximately 10% in FY20 (pro forma, with no synergies assumed).

⁴ See page 7 of 1H FY20 Investor Presentation for details on the acquisition structure and funding.

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Adairs continues to see many opportunities to add value to an already successful business. Its knowledge and experience of the home market will allow it to help Mocka management further develop the Mocka brand, especially in Australia, and support the Mocka team to continue to deliver growth.

Mocka will continue to operate as an independent business with the management team who have successfully developed the business to this point continuing to lead their operations and strategy. Mocka contributed \$2.4m to consolidated group sales for the month of December.

Our Community

Adairs is committed to supporting the community that supports us through a variety of initiatives. Our hearts go out to all families, communities and wildlife devastated by the bushfires across Australia. With many thousands affected by this disaster, the Adairs Retail Group made an initial donation of \$50,000 to the Australian Red Cross to support our communities and assist in their recovery, and subsequently, through the support of our customers and store teams, contributed a further \$30,000. Whilst there is urgency for immediate donations, Adairs recognises the journey to re-build these communities will take time and we will continue working with partners to support this process.

Outlook

For the first seven weeks of 2H FY20:

- Adairs generated LFL sales growth of 2.3% and LFL Gross Profit growth of 8.5%.
 - Whilst this represents a slowing in LFL sales growth, it is part of an ongoing program to reduce:
 - (i) our depth of discounting, and
 - (ii) the length of time the business is on sale, with almost 7 fewer days of discounting activities relative to the same period in FY19.
- Mocka generated like for like sales growth of 16% over the same period last year ⁵.

We expect to open 1-2 net new stores and upsize 3-5 existing stores across Australia and New Zealand during 2H FY20.

In balancing the solid 1H FY20 performance against the uncertainties that exist over the near to medium term, including the potential impact of the coronavirus (COVID-19), the Company has elected to leave its FY20 guidance unchanged.

FY20 guidance based on a pro forma full year contribution from Mocka therefore remains as detailed in the following table:

⁵ Provided for information only - Mocka was not part of Adairs in FY19.



(A\$m)	Adairs FY20 guidance incl Mocka ^{1,4}	Illustrative Adairs FY20 guidance incl Mocka Pro forma for full year ^{2,4}
Year end stores (#)	169 - 171	169 - 171
Sales	385 - 400	400 – 415
EBIT ³	48 - 52	52 – 56
Capital Investment	9 - 11	9 – 11

Notes:

1. Assumes a 30-week contribution from Mocka.
2. Based on Adairs assessment of Mocka's pro forma normalized full year contribution. Assumes a constant AUD:NZD exchange rate of 1.04
3. Excludes Mocka transaction costs and AASB 16 adjustments.
4. Assumes no material or sustained impact from coronavirus

In summary, the first half of FY20 has produced a good result and seen the announcement of two key strategic initiatives in the acquisition of Mocka and the finalisation of our NDC plans, both of which are squarely focussed on delivering future growth.

Conference Call

A conference call for investors and analysts to discuss our 1H FY20 results, hosted by Mark Ronan (Managing Director and Chief Executive Officer) and Ashley Gardner (Chief Financial Officer), will be held at 11:00AM (Melbourne time) today.

In order to pre-register for this conference call (and avoid a queue when calling) please click on the link below. You will be given a unique pin number to enter when you call which will bypass the operator and give you immediate access to the briefing.

[Pre-register for call \(click here\)](#)

If you do not preregister you may still join the call by dialling +61 (0)2 9007 8048 or 1 800 908 299 (toll free). When prompted, please provide the **CONFERENCE ID: 10004028** to the operator.

Participants who have not pre-registered are encouraged to dial in 10 minutes early to allow time to register and be admitted to the call.

This call will be recorded and made subsequently available on the Adairs Investor Relations website (<http://investors.adairs.com.au/investors/>).

ENDS

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About Adairs

Adairs is a retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of formats and a growing online format. The company presents customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior in-store customer service. For further information visit www.adairs.com.au

About Mocka

Mocka, a wholly owned subsidiary of Adairs, is a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand. Mocka sells its own exclusive, well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories. Delivering great product and compelling everyday value-for-money is core to the Mocka customer proposition. For further information visit www.mocka.com.au

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