



Release to the Australian Securities Exchange

Adairs Limited First half results for FY21 Record sales and underlying EBIT⁵ exceed guidance Online sales now 37% of Group Sales

16 February 2021

Adairs Limited (ASX: ADH)

Adairs today released its results for the 26 weeks to 27 December 2020 (1H FY21).

The Company has delivered record sales and profitability at a time when its 43 Greater Melbourne Adairs stores were closed for almost half the period¹ due to COVID-19 related restrictions. Sales and underlying EBIT exceeded the December 2020 guidance after adjusting for the \$6.1 million repayment of the JobKeeper wage subsidy benefit.

1H FY21 (compared to 1H FY20) snapshot²:

- Group sales up 34.8% to \$243.0 million
 - Adairs sales +20.9% (Online +95.2%, Stores +4.6%; Stores LFL +14.4%³)
 - Mocka sales +44.4%⁴ to \$28.0 million
 - Group online sales of \$90.2 million, 37.1% of Group sales
- Underlying Group EBIT⁵ up 166% to \$60.2 million (1H FY20 \$22.6m)
- Gross margin up 500 bps
 - Underlying Adairs gross margin +690 bps to 67.8%
 - Underlying Mocka gross margin +230 bps to 53.4%⁴
- Statutory NPAT \$43.9m up 233.4% and EPS 25.9cps (7.8 cps in 1H FY20)
- Net cash of \$22.1 million (compared to net debt of \$1.0 million at June 20)
- Interim dividend of 13.0 cents per share (fully franked) declared
- Linen Lover membership now exceeds 900,000 customers
- The Company will repay the JobKeeper wage subsidy benefit for the period (\$6.1 million) to the Government

¹ Greater Melbourne stores were closed from 6 August 2020 and re-opened on 28 October 2020.

² See Appendix 3 of the Investor Presentation for a reconciliation of statutory and underlying results.

³ Like for like sales growth ("LFL") has been adjusted for all store closures, including when Greater Melbourne and South Australian stores were closed due to COVID-19, and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).

⁴ For information only. Adairs acquired Mocka in December 2019.

⁵ Underlying EBIT and NPAT exclude the impact of (i) AASB 16 (Leases), (ii) JobKeeper wage subsidy benefit of \$6.1m, (iii) one-off costs associated with the transition to the new National Distribution Centre, and (iv) non-cash costs associated with the acquisition of Mocka. It does include the impact of the closure of Greater Melbourne stores for c.12 weeks.

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Commenting on the 1H FY21 results Managing Director and CEO, Mark Ronan, said:

"Our first half FY21 results are outstanding and a clear testament to the strategic health, operational excellence and resilience of our business. For the group to achieve an EBIT outcome in six months equal to the EBIT of the full year in FY20, which was itself a record for the company, is something every member of the Adairs and Mocka teams can be proud of.

I am particularly proud of how our team has responded to the challenges caused by the pandemic. From the early phase of disrupted supply chains and national store closures in FY20 which saw most team members stood down, to the prolonged period of Victorian store and Support Office closures in 1H FY21. Even now they are managing a lock down in Victoria and Auckland. Through all of these challenges our team has successfully adapted to position us well to manage and capitalise on an evolving retail environment.

While COVID-19 has seen people invest more in their homes, these results highlight the benefits of investing early in our omni-channel strategy, having a passionate team, great unique product, a large and loyal customer base, and a platform that allows our customers to shop with us when, where and how they want.

Our focus continues to be on delighting and inspiring our customers with new product and outstanding customer experiences both in store and online. Combined with our vertically integrated business model this will deliver continued growth in shareholder value."

Adairs performance (excluding Mocka)

Strong sales growth of 20.9% was achieved despite 43 Greater Melbourne stores being closed for c.82 trading days (45% of their total trading days in 1H FY21). This excellent sales outcome was driven by a differentiated product offering which allowed strong sell through, reduced depth of discount and higher average selling price. Other significant contributing factors were the strength of the company's online platform and the continued focus of customers investing in their home.

Adairs online sales grew by 95.3% to \$62.2 million. While this channel benefitted from the Greater Melbourne store closures the online channel performed strongly across the entire half and accounted for 28.9% of total Adairs sales (up from 17.9% in 1H FY20). Importantly, the value of sales to omni channel shoppers (customers who shop across both channels and who are the most valuable customer to Adairs) increased by over 60% during the half.

Store like-for-like sales were up 14.4% after adjusting for all store closure periods, including when Greater Melbourne and South Australian stores were closed due to COVID-19. All States and store formats delivered strong like-for-like store sales growth, as did New Zealand (up 15.9%).

Linen Lover Club membership continues to grow strongly and now exceeds 900,000 members. These are the most engaged customers for whom Adairs can look to individually tailor offers based upon their historic purchases and preferred channel. Linen Lover members continue to account for c.75% of all sales.

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During the half we opened 3 new Homemaker stores in Warragal (VIC), Belmont (WA) and Botany (NZ) and closed two smaller stores – a regular store in Burnside (SA) and an Adairs Kids store in Bondi (NSW). This resulted in a net 3.4% increase in Gross Lettable Area (GLA) for 1H FY21.

Managing gross margin rate has continued to be a key focus, increasing by 690bps to 67.8%. This was achieved through a coordinated program of sourcing and retail pricing initiatives combined with a strong focus on reduced depth and length of promotional activity. The number of storewide promotional events was reduced by 29 days during the half.

CODB⁶ expenditure increased by 5.3% with some increases in variable costs related to the strong sales growth, an increase in online marketing expenditure and further investment in talent and capability within the support office to drive key growth areas across the business. Overall Adairs achieved significant operating leverage with COB⁶ as a percentage of sales declining from 43.9% to 38.3%.

Adairs finished the half with inventory at planned levels. Store inventory has been intentionally reduced against the prior year in-line with our strategy to provide more space in stores whilst supporting this with higher inventory levels in the distribution centre that is available to all stores and online customers.

Mocka performance

Mocka continues to perform above the expectations we had for the business when it was acquired just over a year ago. Mocka's sales in 1H FY21 were \$28.0 million, up 44.4% on 1H FY20 (noting that Adairs acquired Mocka in December 2019).

The strong performance in the half was achieved despite persistent stock shortages. Stock-on-hand levels have improved in the last few months but remain below plan given stronger than expected sales and longer product lead times to market. This is expected to be substantially resolved by the end of February 2021 with c.42% (or \$8.5 million) of Mocka's total inventory "in transit" at half year end.

Mocka's strong sales growth was accompanied by an improving Gross Margin rate which increased by 230bps to 53.4%⁷ as a result of a reduction in promotional activity and price reviews over the last 12 months. The strong sales growth and improved gross margin rate, coupled with ongoing cost control initiatives, delivered an underlying EBIT of \$7.0 million, up 100% on 1H FY20⁶. This represents an EBIT margin of 25.2% for 1H FY21.

National Distribution Centre

Construction of the National Distribution Centre (NDC) in Melbourne is well underway and remains on track to be operational in Q1 of FY22. The project has experienced some delays due to Victorian building restrictions in August/September 2020 and delays in receiving key components from overseas, both as a result of COVID-19 restrictions. Whilst these delays may impact the savings realised in FY22, this important initiative will still deliver annual savings of \$3.5 million p.a. once fully operational.

⁶ Excludes the JobKeeper wage subsidy benefit of \$6.1m to be returned to the Government.

⁷ For information only. Adairs acquired Mocka in December 2019.

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The NDC is a key component of Adairs' integrated omni supply chain strategy to better enable customers to shop Adairs how, where and when they choose. The new facility will have the capacity and flexibility to support business growth well into the future across all channels. Consolidating multiple distribution centre operations into a single national facility will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods, at a lower cost.

Strong cashflow and balance sheet

The strong result has delivered an underlying operating cashflow of \$46.5 million (up 91%) which has resulted in the Group having a Net Cash position of \$22.1 million at the end of 1H FY21 (compared to a Net Debt position of \$1.0 million at the end of FY20 and Net Debt of \$46.3 million at December 2019 following the acquisition of Mocka).

Term finance facilities of \$90.0 million are available until March 2023.

Trading update and outlook

For the first seven weeks of 2H FY21, sales have remained well ahead of the prior year. Adairs online sales were +65.9%, Mocka +48.6%, while like-for-like store sales were +12.4%.

Gross margins in both businesses remain elevated in line with 1H FY21.

Sales, unaudited (first seven weeks of 2H FY21)	Growth over prior corresponding period
Adairs stores	+12.1%
Adairs stores – Like-for-like ¹	+12.4%
Adairs online	+65.9%
Total Adairs	+22.2%
Mocka	+48.6%
Total Group	+25.0%

Note 1: Like for like sales growth has been adjusted for all store closures, including when due to COVID-19, and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).

With ongoing changes to COVID-19 restrictions impacting stores we remain committed to always providing customers with the safest and easiest in-store shopping experience possible. This includes the use of hand sanitiser and register safety screens in all stores, along with social distancing measures, contactless payment facilities and daily temperature checks for all team members.

Stock flow from China and South East Asia remains inconsistent due to international shipping disruptions across the region. However, our plans have been adapted to accommodate delays without a significant impact on our ranging or customer experience.

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COVID-19 continues to encourage strong spending in home improvement and home decoration, and we expect this behaviour to persist whilst COVID-19 uncertainty continues. While current trading remains strong, due to the ongoing uncertainty relating to COVID-19 the Board does not consider it appropriate to provide guidance for the FY21 full year at this time.

JobKeeper

The Board has determined that, based on the performance of the Company during 1H FY21, it is appropriate to repay the JobKeeper wage subsidy benefit of \$6.1 million received during the period to the Australian Government. This will be repaid and recognised in the Company's financial results in 2H FY21.

Dividend

Given the underlying NPAT achieved in 1H FY21 and having regard to the prevailing trading environment, the Board has declared an interim fully franked dividend of 13.0 cents per share. The Record Date for the dividend will be Wednesday 10 March 2021 with payment on Thursday 25 March 2021.

Conference Call

As previously announced, a conference call for investors and analysts to discuss this announcement, 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.

Anyone wishing to listen to the call are required to pre-register which can be done by clicking 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 prompted, please provide the **CONFERENCE ID: 10011653**.

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

ENDS

This announcement has been approved by the Board of Adairs Limited.

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About Adairs Limited

Adairs Limited is Australia's largest omni channel specialty retailer of home furnishings and home decoration products. We own and operate two businesses in the category, Adairs and Mocka. Both businesses are design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand. Adairs head office is in Melbourne, Australia.

For further information visit our investor relations website www.investors.adairs.com.au

About Adairs

Adairs is a leading specialty retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of formats and a large and growing online channel. Our strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior 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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