



Release to the Australian Securities Exchange

Adairs Limited FY22 results Record sales in a year disrupted by COVID

22 August 2022

Adairs Limited (ASX: ADH) today released its audited results for the 52 weeks ended 26 June 2022 ("FY22"). The Group has reported a record sales result following the acquisition of Focus on Furniture in December 2021 and despite the Adairs brand losing c16% of its total store trading days due to government-mandated store closures in the first half.

The strong sales result was offset by a number of factors, mostly related to COVID, which impacted operations and added considerably to the Group's cost base. The majority of these costs were one-off or short term in nature, and the underlying business continues to perform well above its FY20 (pre-COVID) levels.

FY22 (vs FY21) highlights:

Group sales of \$564.5 million, +12.9% on FY21 (+45.1% on FY20)

- Group LFL¹ sales -2.0% cycling record FY21 (FY21 LFL sales +16.5%)
- Group online sales now \$195.4 million, 35% of Total Group sales
- Adairs sales -4.8%, with Online -1.5% (LY +33.2%) and Stores -6.1% (LY +18.1%)
- Mocka sales +6.5%
- Focus on Furniture ('Focus') contributed sales of \$81.7m for its 7 months of ownership, ahead of expectations at the time of acquisition (Dec 2021)
- Group gross margin lower, in line with expectations (-520bps to 59.6%)
 - Adairs gross margin declined 350bps, but remains 170bps ahead of FY20 (pre-COVID)
 - Higher contribution from Mocka and Focus at lower gross margins
- Underlying Group EBIT² of \$76.4m (-30.0% v FY21 / +38.1% v FY20)
- Group statutory NPAT \$44.9m and EPS 26.4cps
- Net debt of \$93.2m after completing the Mocka earn-out and acquisition of Focus on Furniture in FY22. Net debt / Proforma EBITDA³ < 1.0x
- Final dividend of 10.0 cents per share (fully franked) declared, taking total FY22 dividend to 18.0 cents per share. DRP remains active (with 1.5% discount).

¹ Like for like sales growth ("LFL") excludes Focus and has been calculated on a store-by-store daily basis.

² References to "Underlying" results exclude the impact of (i) AASB 16 Leases; (ii) Focus and Mocka acquisition related transaction costs (including earn-out adjustments), and; (iii) one-off costs associated with the transition to the NDC.

³ Proforma for full year (FY22) of Focus on Furniture EBITDA

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Commenting on the FY22 results Managing Director and CEO, Mark Ronan, said:

“FY22 produced another record level of sales following the acquisition of Focus. This comes despite widespread store closures due to COVID and reflects the strength of our omni-channel model, with the Group approaching \$200 million in online sales, as well as strong support from our loyal customer base and another strong year in terms of product offering.

Significant operational disruptions related to COVID-19, particularly within our supply chain, impacted the Group's cost base and meant that this growth did not translate into an increase in profits. The majority of these costs are not expected to carry into future years and while a number of macro-economic headwinds have emerged in recent months, we are confident that this tougher environment will favour companies such as Adairs, Mocka and Focus all of whom provide a strong value proposition to the large and growing middle-market consumer.”

Adairs brand performance

The Adairs omni-channel business model once again proved effective in FY22 when c16% of store trading days were lost due to government mandated store closures. Despite the store closures, Adairs' total sales for the year of \$418.7 million remains 16.3% above FY20 (pre-COVID) levels, reflecting the underlying strength of the business with membership of the Linen Lovers loyalty program now exceeding one million customers and accounting for over 80% of all sales.

As expected Adairs' gross margin was lower in FY22 against FY21, finishing at 63.2% due to increases in global supply chain costs, particularly sea freight, and a measured increase in promotional activity in line with a more competitive market.

Adairs' cost of doing business (CODB) was 8.3% higher than FY21 reflecting:

- one-off COVID-related warehouse inefficiencies – retained an additional warehouse and slower than planned ramp up of NDC operations. These accounted for >50% of the CODB increase;
- lower COVID-19 rent rebates in FY22 (with landlord negotiations continuing for FY22 closure periods);
- higher salary and wages costs to support our store teams during periods of store closures; and
- continued investments in team, marketing, and digital initiatives to drive future growth.

A number of these costs were related to managing the business through COVID and should not be recurring in the medium term.

The store closures combined with the CODB increases saw Adairs report an underlying EBIT of \$55.5 million.

In line with its strategy Adairs opened four new stores and upsized eleven stores during the year which delivered a 7% increase in store floor space as measured by Gross Lettable Area (GLA).

Further, the construction and opening of the Adairs' National Distribution Centre (NDC) in Melbourne was completed in the first half of FY21. Whilst it has taken longer than planned to stabilize the new NDC operations, Adairs remains confident it has the capability to support ongoing business growth.

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Mocka brand performance

Mocka had a disappointing year with sales in the 2H well down on plan as a result of significant supply chain interruptions and isolated product issues which led to adverse customer feedback and returns. Both issues have now been addressed operationally with recent trading and customer feedback confirming customer confidence is increasing.

Total sales of \$64.1 million were up 6.5% on FY21. The weaker sales outcome was compounded by higher import freight costs and higher domestic delivery charges resulting in a decline in the gross profit margin (including customer postage) to 30.7% (from 39.6% in FY21).

Mocka's costs were elevated due to the continued planned investments in team to support the business for long term growth, as well as increased warehousing requirements to support increased inventory holdings.

The focus for Mocka is now on increasing customer confidence through execution excellence and ensuring the changes made support a stable supply chain. The Board and management continue to believe that the opportunity to profitably grow the business in Australia is substantial.

Focus on Furniture

In November 2021, Adairs announced the acquisition of Focus on Furniture, a highly profitable vertically integrated omni-channel furniture retailer operating in Australia through a network of 23 stores and a small but growing online channel. The consideration paid represented an enterprise value of \$80 million on a debt-free basis. The acquisition is expected to deliver double-digit EPS accretion from FY23 (its first full year of ownership).

Strategically the acquisition increases the Group's exposure to the bulky furniture category (an \$8.3 billion+ market) with a clear growth strategy for the brand through:

- store roll-out – plan to open a further 30+ new stores;
- online growth – improved customer experience to drive a 2-3x increase in current online sales;
- product category and range expansion; and
- store refresh program – to improve the customer instore experience and sales conversion for a modest investment (<\$100k per store).

Focus has a complementary customer and product overlap with the Group's existing businesses and provides opportunities to leverage skills in store expansion, product development and last mile delivery capability.

The acquisition is a quality addition to our portfolio of attractive businesses all targeting the Australian home furnishings and furniture middle market.

For the seven months of ownership, total sales were \$81.7 million with underlying EBIT contribution of \$17.2 million. Gross margin as a percent of sales increased to 52.0% through competitive stock availability and pricing discipline.



The store redesign plans have been completed and in FY23 it is expected that 3-5 existing stores will be refreshed and 2-3 new stores opened.

Strong cashflow and balance sheet

During the year the Group completed the acquisition of Focus on Furniture and finalised the earn-out with the founders of Mocka. These transactions were funded from debt facilities with no further payments required for either acquisition. Cash generation from operations saw net debt finish at \$93.2 million, with \$120.0 million in drawn debt and cash on hand of \$26.1 million. The Group has considerable covenant headroom with finance facilities of \$135 million available until July 2023 (\$90 million) and January 2025 (\$45 million). Net debt / Proforma EBITDA⁴ is < 1.0x.

Whilst improving at the margin, global supply chains remain significantly disrupted. The Group has been agile to adapt strategies and implement learnings from recent COVID periods. All brands continue to deliberately carry higher inventory levels to provide better availability for customers and certainty in ranging with minimal fashion/trend risk. The higher inventory positions are expected to continue throughout FY23 whilst supply chain disruptions remain.

Dividends

The Board has declared a final fully franked dividend of 10.0 cents per share (unchanged on FY21), taking the total dividend payout for the year to 18.0 cents per share, or 68.6% of FY22 NPAT. The dividend record date is 6 September 2022 and payment date is 22 September 2022. The Board has determined that the dividend reinvestment plan will continue to operate for the FY22 final dividend, offering eligible shareholders the opportunity to reinvest their dividend in additional shares in the Company at a discount of 1.5% to a 5-day volume weighted average share price.

Outlook and guidance

The Group is well placed to navigate emerging macro trading environment headwinds with the strength of the business model becoming more apparent as consumers become more value-orientated:

- well positioned middle market brands with strong value propositions;
- low average selling prices across the brands (Adairs \$42, Mocka \$119, Focus \$1,342)⁵;
- strong presence in both physical and online channels;
- large total addressable market across the Group;
- vertical integration providing exclusive products and direct control over supply and pricing delivering higher initial margins; and
- a large and loyal customer base.

⁴ Proforma for full year (FY22) of Focus on Furniture EBITDA

⁵ FY22, ex GST

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The Group currently has hedging in place for 75% of expected USD purchases in FY23 at an average rate of \$0.74.

With a full year contribution from Focus, ongoing improvement at Mocka, and Adairs continuing to execute well we expect to continue to grow both Sales and EBIT in a tougher environment.

The Board provides the following FY23 guidance:

	FY23 Guidance
Group Sales (\$m)	625 – 665
Group EBIT ¹ (\$m)	75 – 85
Capital investment (\$m)	12 – 15
New stores (Adairs)	4 – 6
New stores (Focus)	2 – 3

Note 1: Pre AASB-16 and any one-off costs

Group trading update

Group trading results for the first seven weeks of FY23 are in line with plan and consistent with the above guidance.

- Sales at Adairs stores are in-line with plan while sales at Focus stores are ahead of plan.
- With a fully operating retail store environment, online's performance across all brands are in line with plan (down on FY22)
- Focus's open orderbook at the end of week 7 was \$17.5 million.

<u>Unaudited sales (first 7 week of FY23)</u>	<u>v FY22</u>
Group Sales	+44.8%
Group Sales (ex. Focus)	+3.9%

Based on real-time written sales

Conference Call

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 11.30am (Melbourne time) today.

Anyone wishing to listen to the call are required to pre-register. If not already done, you can pre-register 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: 10023793** to the operator.

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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 Australasia's largest omni channel specialty retailer of home furnishings, home furniture and home decoration products with three vertically integrated brands – Adairs, Mocka and Focus on Furniture. All brands 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.

About Adairs

Adairs is a leading specialty omni-channel 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. Adairs 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 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

About Focus on Furniture

Focus on Furniture ('Focus') is a vertically integrated omni-channel furniture and bedding retailer offering well designed, functional and on-trend products at great value for money through its network of stores in Australia and its online channel. Focus is characterised by its attention to customer service, support, product quality and range. For further information visit www.focusonfurniture.com.au

Adairs Limited

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