ADOREBEAUTY
GROUP

Adore Beauty Group Limited
ABN 78 636 138 988

ASX ANNOUNCEMENT

29 August 2022

Adore Beauty delivers $200M revenue, sustainably re-investing for growth

Adore Beauty Group Limited (**ASX: ABY**) (**Adore Beauty** or **Company**), Australia's number one pureplay online beauty retailer[1], has released its full-year results for the 12 months ended 30 June 2022 (**FY22**).

Key FY22 Highlights:

- Revenue of $200 million, up 11% on FY21 and 65% on FY20; driven by valuable returning customers with higher average order values, and multiple record trading days
- Active customers[2] of 872k, up 7% on FY21 and 48% on FY20
- Returning customers[3] of 472k, up 31% on FY21 and 115% on FY20; contributed 70% of all revenues, up from 62% in FY21
- Loyalty program and mobile app scaling well, contributing 60% and 11% of total revenue respectively
- First owned brand Viviology successfully launched
- EBITDA of $5.3 million and EBITDA margin of 2.7%, in line with guidance[4] and reflecting re-investment
- Flexibility to pursue growth opportunities with $29.8 million cash and no debt

Commenting on Adore Beauty's FY22 performance, CEO Tennealle O'Shannessy said, "*FY22 has been another successful year for Adore Beauty, one in which we delivered record revenue, multiple record trading days, and strong growth across key customer metrics, while continuing to re-invest in the business. Our growing returning customers remain the largest contributor of revenue, accounting for 70% of sales and driving higher average orders and annual spend.*"

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[1] Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates.
[2] Active customers refer to customers who have ordered in the last 12 months, comparison of FY22 to FY21 and FY20.
[3] Returning customers are customers who have previously placed an order on the Adore Beauty website; comparison of FY22 to FY21 and FY20.
[4] EBITDA in line with guidance provided in FY21 results media release on 30th August 2021 "Adore Beauty expects to maintain a 2-4% EBITDA margin in the short to medium term while reinvesting to drive above market growth".

"Our changing active customer base now has a higher proportion of returning than new customers, with subscription-like retention rates after just two years on the platform. This highlights the resilience and future potential of Adore Beauty's business. Our highly engaged and loyal returning customers are reflective of the broader premium beauty category, where customers are brand loyal, shop with beauty specialists and frequently re-purchase skin and hair products they use daily and consider essential."

"Our investments in strategic priorities are contributing to improved customer retention and lifetime value, and will drive sustainable, long-term growth as online adoption in Australia's beauty and personal care market catches up to the UK, USA, and China. The online leader in each of these markets has taken a disproportionate share of growth as e-commerce penetration increases. As Australia's incumbent, we are best placed to grow customers, revenue, and margins as our market matures."

Strategic initiatives driving topline growth

Adore Beauty continues to execute on longer-term strategic initiatives to scale revenues, higher-value customers, retention, lifetime value, and profitability.

Adore Beauty's mobile app is scaling well, contributing 7.7% of revenue in Q1 FY22, doubling to 15.5% in Q4 FY22. The app is continuing to deliver higher levels of engagement, conversion, and average order values as it scales. The Company's loyalty program is also contributing to growth with members accounting for 60% of revenues in FY22 and continued strong member sign-ups.

In June 2022, Adore Beauty launched its first owned skincare brand, Viviology, with sales in the first month exceeding internal expectations. The Company is also scaling its adjacent product categories with Fragrance and Korean Beauty now accounting for 4.1% and 2.5% of total revenue respectively.

Adore Beauty's industry-leading organic website traffic was driven by 4% growth in content-driven impressions[5], which continues to support the Company's growing owned marketing channels.

Commenting on the Company's operational progress, Ms. O'Shannessy said, *"Our strategy is working, driving customer metric improvements throughout FY22, and positioning the business for sustainable long-term growth. Our scaling mobile app, loyalty program, and adjacencies directly support and drive revenue growth, retention, and lifetime value, and will continue to deliver benefits going forward."*

[5] Content-driven impressions measures total consumption of podcast episodes, social content views (Instagram, YouTube and Tiktok) including videos, posts, articles, tutorials and educational longer form videos.

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"Our mobile app continues to outperform expectations, contributing 11.3% of revenue in FY22 and maintaining higher levels of engagement, conversion, and AOV as it scales. We are leveraging our proprietary datasets to improve personalisation and user experience, further refining our best-in-class e-commerce experience."

"The successful launch of our first owned brand, Viviology, has diversified our revenue and margin profile. Sales in the first month exceeded our internal expectations, and we are on track to launch our second owned product offering later in the calendar year. Owned brands are an important pillar in our long-term growth strategy, providing future expansion opportunities in new geographic regions and distribution channels, and delivering improved margins. At scale, we are targeting owned brands to contribute 15%+ of all revenue with gross margins above 80%."

"Our content strategy continues to drive traffic to our growing owned marketing channels, enabling us to more cost-effectively acquire, engage, and retain customers. Engagement with our content is at unparalleled levels for a retailer, with our Beauty IQ podcast being downloaded over four million times since inception. Highly competitive paid marketing channels are resulting in more of our brand partners leveraging Adore Beauty's marketing expertise through co-funded marketing initiatives."

Strong balance sheet provides flexibility

Adore Beauty is capital efficient and profitable with a healthy cash balance of $29.8 million as at 30 June 2022, and no debt. In line with expectations, inventory levels are slightly higher than PCP to support growth, however, turnover remains in line with PCP at 8.2x[6]. Out of stocks for popular electrical products that impacted H2 FY22 have now been resolved. Adore Beauty's strong balance sheet provides the Company with flexibility to pursue growth opportunities which accelerate strategic priorities.

Trading Update & Outlook

Adore Beauty is cycling off a prior period of significant growth in H1 FY22 where most of Australia was in lockdown, meaning growth comparisons as expected are volatile. Trading in the first seven weeks reflects this volatility with revenue down 28% on PCP[7]. The Company expects a return to double-digit revenue growth in H2 FY23, as it finishes cycling COVID lockdown growth.

[6] Inventory turnover = COGS divided by average inventory.
[7] Revenue based on unaudited management accounts. Comparison of 1 July – 21 August 2022 against PCP.

Like many online retailers, Adore Beauty is also facing inflationary pressures around employee, freight and marketing costs, and consumer sentiment is more subdued. The Company is implementing cost control measures to actively manage inflationary pressures.

At the same time, Adore Beauty is prioritising and stepping up its investment in strategic initiatives that drive margin expansion. In FY23, Adore Beauty will double its investment in owned brands to support scaling future revenue and margin expansion.

Given these cyclical headwinds and continued disciplined investment, Adore Beauty does not expect to achieve an EBITDA margin of 2-4% in FY23, however it expects to remain profitable on a full year basis. The Company expects to return to a 2-4% EBITDA margin range for the full year in FY24.

Longer-term, Adore Beauty expects to continue to benefit from the structural shift to e-commerce, which combined with high levels of customer retention and growing brand awareness, positions the Company for strong future growth.

Strategic initiatives, including owned brands and marketing channels, and scale benefits, are expected to increase operating leverage and deliver EBITDA margin expansion over time. Adore Beauty is targeting an EBITDA margin of 8-10% for the full year in FY27[8], with the mobile app and owned brands targeting contributions of 30% and 10% of revenue respectively. Beyond FY27, Adore Beauty is targeting an EBITDA margin of 10%+[8] as owned brands targeted contribution increases to 15%+ and new geographies unlock additional revenue opportunities.

Investor conference call details

An investor conference call will be held this morning (29 August) at 10:30am AEST. Attendees will have the opportunity to ask questions at the end of the presentation.

Teleconference: Participants can register for the conference at: https://s1.c-conf.com/diamondpass/10023818-sd2m76.html or alternatively dial 1800 590 693 (Australia toll free) or +61 3 8317 0929, and provide the conference ID **10023818** to the operator.

Webcast link: https://ccmediaframe.com/?id=lRizYhLX

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[8] Management targets, not a forecast. Based on management estimates and subject to execution of strategic initiatives.

This announcement was authorised by the Board of Directors.

For more information, please contact:

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Appendix

A$M	FY22	FY21	FY20	FY22 vs FY20 Mvmt	FY20 –FY22 CAGR	FY22 vs FY21 Mvmt
Revenue	199.7	179.3	121.1	*65%*	*28%*	11%
Gross Profit	66.5	59.3	38.5	73%	31%	12%
EBITDA[9]	5.3	7.6	5.0	*8%*	*4%*	*-30%*
EBITDA Margin	2.7%	4.2%	4.1%	-1.4ppt	NA	-1.6ppt

About Adore Beauty

Launched in 2000 as Australia's first beauty focused e-commerce website with a vision to help customers feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience personalised to their needs. Adore Beauty has evolved to an integrated content, marketing and e-commerce retail platform that partners with a broad and diverse portfolio of more than 270 brands and over 12,000 products.

Forward Looking Statements

Certain statements made in this release are forward-looking statements. These forward-looking statements are not historical facts but rather are based on Adore Beauty's current expectations, estimates and projections about the industry in which Adore Beauty operates, and beliefs and assumptions. Forward looking statements can generally be identified by the use of forward-looking words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on future earnings, distributions or financial position or performance are also forward-looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the control of Adore Beauty, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward -looking statements. Adore Beauty cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of Adore Beauty only as of the date of this release. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements.

The forward-looking statements made in this release relate only to events as of the date on which the statements are made. Adore Beauty has no obligation to release publicly any revisions or updates to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date of this release except as required by law or by any appropriate regulatory authority.

[9] Historical EBITDA comparisons include proforma adjustments.

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