



Company Announcements Office  
Australian Securities Exchange Limited  
525 Collins Street  
Melbourne VIC 3000

25<sup>th</sup> October 2019

**Adairs Limited (ADH) AGM Presentation (including trading update)**

Please find attached copies of the presentation of the Annual General Meeting to be held today together with the Chairman and CEO address which includes a trading update.

**ENDS**

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## Release to the Australian Securities Exchange

### 2019 Annual General Meeting

#### **Chairman's address - Michael Butler**

Good morning Ladies and Gentlemen. My name is Michael Butler, and I am Chairman of the Board of Directors of Adairs Limited.

It is now 11:00am, the appointed time for holding Adairs' 2019 Annual General Meeting. I am advised that a quorum is present. I, therefore, have pleasure in declaring this meeting open. Thank you for attending.

Before proceeding with the formal business of the Meeting, I would like to introduce my colleagues:

- Mark Ronan, Executive Director, Managing Director & CEO
- Michael Cherubino, Executive Director, Property and Business Development
- Trent Peterson, Non-Executive Director and chair of our Remuneration Committee
- Kate Spargo, Non-Executive Director and chair of our Audit and Risk Committee
- David MacLean, Non-Executive Director
- Kiera Grant, Non-Executive Director;
- Simon West, Non-Executive Director; and
- Fay Hatzis, our Company Secretary.

Kiera and Simon joined the Board in January this year. Both have extensive board and senior management experience across a range of related industries, and we are delighted that they accepted our invitation to join Adairs.

Members of our Senior Leadership Team are also with us today. I ask them to stand and identify themselves. They are:

- Ashley Gardner, Chief Financial Officer
- Jenny Hides, General Manager of Product and Design
- Paul Randall, General Manager of Retail Operations
- Alexandra Christopher, General Manager of Marketing, eCommerce and Business Development
- Michael Gilsenan, General Manager of Supply Chain
- Filipe Matos, General Manager of Technology
- Sarah Welti, Head of People
- Kerry Fisher, Head of Merchandise Planning; and
- Jamie Adamson, Head of Investor Relations

Also, present is Joanne Lonergan, our engagement partner with the Company's Auditor, Ernst & Young. Joanne will be available to answer questions on the accounts at the appropriate time. We also welcome the team from the Company's Share Registry, Link



Market Services Limited, who will assist if required in the counting of votes in respect of all resolutions to be put to the meeting.

The agenda for today's meeting is that following my introductory remarks, Mark Ronan, Managing Director & CEO, will present his review of the Company's activities during FY19, the company's trading for the year to date, and the outlook for the balance of the year. We will then proceed with the formal business of the Meeting to receive and consider the Financial Report of the Company and to then vote on the Resolutions. At the conclusion of the meeting, we invite you to join the Board and senior management for light refreshments.

The results for the 2019 financial year are tabled before you. The 2019 financial year saw our team make significant progress on our strategic priorities with the result that Adairs continued to deliver above market sales growth in what has been a challenging macro and competitive environment.

Unfortunately, the laudable efforts to grow in-store and online sales were negated by unacceptable increases in our costs of doing business and distribution and logistics costs in our supply chain. This meant that our sales growth did not result in commensurate earnings growth. From a remuneration perspective this outcome meant that none of our senior executives received any bonus under their STI arrangements.

What has been achieved is a platform of stores and an online channel which together deliver true omni-channel capability. We have an active and growing loyalty program. We also have strong design and sourcing expertise. Our challenge is to drive the potential of this platform and these capabilities.

Mark will elaborate on this and what is being done to address this aspect of our business in his report.

Some of the year's highlights include:

- Record sales across both our stores and online channel
- The addition of market leading expertise into our finance, supply chain and digital teams
- New Zealand became profitable and continues to grow; and
- We finished with a clean inventory position and a strong balance sheet further strengthened by significant free cash flow.

During FY19, the Company:

- Grew total sales by 9.7% with like-for-like sales growth of 7.2% and online sales growth of 42% over the prior year;
- Grew Gross Profit by 6.7% with a gross margin rate decrease of 110 basis points to 59.2% due to the higher distribution costs and weaker Australian dollar;
- Experienced a 2.4% decline in EBIT to \$43.4m
- Reduced net debt by \$4.0 million to \$8.2 million
- Experienced a 17% increase in Linen Lovers membership numbers; and
- Declared a fully franked final dividend of 8.0 cents per share, taking total FY19 dividends to 14.5 cents per share, an increase of 7.4% on FY18



Our financial strength means we are well equipped to support the Company's growth strategies and provides the flexibility to respond to opportunities and challenges as they emerge. The Board will continue to evaluate ongoing capital requirements of the business, assessing its strategic priorities, longer term capital requirements and maximising shareholder value.

Your Directors were pleased to announce and pay fully franked dividends for the year of 14.5 cents per share.

I commend our management team, lead by Mark Ronan, for their performance over the past year on behalf of shareholders. Our underlying strategies are delivering sales growth, continued gains in market share, and robust cashflows. Our sales growth across both our stores and online channel demonstrate the health of our business. We finished the year with a clean inventory position, a profitable and growing business in New Zealand, a leading online channel, a strong balance sheet and clear plans on how we can improve our management of costs into FY20.

We are confident these strategies can deliver profitable growth for the benefit of all shareholders.

While there are good reasons to be optimistic in our business, I would remind shareholders that the present economic environment continues to contain significant external risks evidenced by volatile currency rates, international political uncertainties and trade disputes.

I will now hand over to Mark Ronan to discuss Adairs' FY19 performance in more detail and provide a review of the company's outlook.

Thank you.

### **CEO Presentation – Mark Ronan**

Thank you Michael

FY19 was a year of significant progress in delivering on our strategic priorities. These advances drove both revenue and market share growth in our online and store channels, together with another year of strong cash generation and healthy dividends for shareholders.

However, as Michael noted, our growth also contributed to significant cost increases in our supply chain and contributed to a reduction in our margins.

### **Financial and Operational Performance**

From a financial perspective the supply chain cost increases, coupled with a weaker Australian dollar and a softer trading environment late in FY19, collectively contributed to a 2.4% decline in our EBIT to \$43.4m.



Strong like for like sales growth of 7.2% across the business demonstrates the continued health and appeal of both our retail store formats and online channel, as well as confirming the success of our core strategies. Transaction volumes increased across both online and stores, continuing the trend seen in FY18, as more customers choose Adairs as the place to shop for on trend quality home furnishings.

We continued our transformation to a market leading omni-channel retailer with online sales growing by 41.7% to now represent 17% of total sales. This growth was a function of both an increase in online traffic (up over 40%) and an improved conversion rate.

Our online sales growth continues to be driven by leveraging the investment made in our website platform, enhancing our digital marketing initiatives, further building our social media channels engagement levels, and improving the integration and alignment of our Linen Lovers program with our online channel. When coupled with our social communities, and loyalty program, our online channels are a critical tool for driving our financial performance.

Our store network delivered 1.5% like for like sales growth with Adairs Kids and Homemaker stores outperforming the other formats. Geographically, all States and Territories recorded like for like sales growth other than Western Australia, where the retail sector weakened notably, particularly in the discretionary categories.

Notwithstanding the strong sales performance, the adverse supply chain impact and weaker Australian dollar meant that our gross margin result finished lower at 59.2%.

### *Adairs Strategic Direction*

Last year I detailed our five key strategic initiatives for growing our business and with it, shareholder value. I'm pleased to report that we delivered on all of our key strategies in FY19 and they remain central to our strategic planning and execution going forward.

This year we have added a sixth strategic initiative focussing on improving our supply chain productivity. The strong growth in our business requires that we implement a material upgrade to our distribution network to provide a capability that is agile, efficient and provides operational leverage to accommodate future profit growth and enhance our customer service levels and competitive advantage.

The successful execution of each of our strategies lays the foundation for future business growth and also places us on the right footing to address any future challenges.

It is worth restating these strategies given their importance and the role they played in driving our FY19 result.



### *Product differentiation and range expansion*

Developing a range of on-trend products to meet our broad customer needs, whilst offering design led, differentiated, quality products is critical to our continued success.

In FY19 our continued focus on range expansion saw 'expansion categories' increase to 41.2% of sales. Growing these expansion categories has the dual benefit of driving like for like sales growth, and also diversifying our business.

Importantly, significant upside remains:

1. In most expansion categories we remain a relatively small player in fragmented markets – the opportunity to grow our market share is high
2. Secondly, by focusing on furnishing more of our customers' homes we can grow our share of existing customers purchases rather than relying on continually acquiring new customers for growth.

In FY20 we will further expand our product offer to provide a broader range of co-ordinated decorator products with a significant focus on our Kids product category.

### *A more inspiring and, larger store network*

Our store rollout and 'upsizing' strategy continues to deliver incremental profit growth.

During the past two years we have upsized 10 stores with all these stores delivering improved profitability for the business. Our experience to date has seen the upsized stores on average increase their store contribution by approximately 30-40% (based on before and after analysis of store contribution), whilst maintaining their store contribution margin as a percentage of sales. With the success of this strategy we have identified a further 10 stores that we will actively look to upsize whilst remaining open to taking advantage of opportunities to upsize stores that are overtrading in the coming years.

In FY19 we opened 5 new stores and closed 7 smaller stores. Of the 7 stores we closed there were 3 Myer concessions stores and 2 Adairs Kids stores that were merged into an upsized Adairs stores within the same centre. This saw us finish the year with 2 less stores than FY18, but with growth in our total lettable area (or "GLA") of approximately 4.5% due to our larger average store size.

We continue to review our store portfolio with a view to increasing profitability through optimising the existing portfolio via upsizing, closures and relocations whilst complimenting this with new stores in areas where we are geographically under-represented, with a preference for larger Homemaker stores.

We expect that this strategy will see us open approximately net 4 - 6 stores per annum over the next 3 years.



### *International expansion*

I'm pleased to report that New Zealand was profitable in FY19 with solid growth in sales across all stores and online. The work undertaken on our supply chain into New Zealand enabled us to take advantage of our sales potential through the year. This, combined with the improving brand awareness and development of the store team in New Zealand, has produced a good year with strong like for like sales momentum carried into FY20.

### *Passionate high performing team members*

We made a number of strategic hires in FY19 building out our capabilities and experience in key areas of the business. Michael earlier introduced our new CFO, Ash Gardner, who joined us in August with responsibility for Adairs' finance function, supply chain and merchandise planning. Ash is a highly experienced finance executive, having previously served as CFO of David Jones, Country Road Group and Just Group. Together with the appointment of Ash we have also added significant expertise into the management team over the past 12 months in the areas of Supply Chain, Technology and Human Resources that see us well placed to deliver on our underlying strategies.

We pride ourselves on a history of providing great customer service, positioning Adairs as the place to shop for home furnishings. As the competitive landscape changes, particularly amongst department stores, our in-store team remain a key point of difference.

We remain committed to investing in our team through training, product knowledge and incentives to continue to enhance the customer experience at Adairs. We believe our service level is a distinct and important competitive advantage that we will look to further enhance.

### *Best in class omni channel retail capabilities*

With online sales now representing 17% of total company sales, our online channel is a significant and growing contributor to our underlying profit and future growth. Our medium term target and planning is to deliver \$100m of sales online. Shareholders and customers can expect to see our continued investment improving our digital presence and execution to complement and enhance our traditional store experience.

The role of online is much more than online sales generation, it is an integral component of our business and a key engagement point with our customers. Our data demonstrates that many of our customers use the online environment to research, co-ordinate, seek inspiration, compare, communicate and shop with us across both our store and online channels. We remain committed to delivering a seamless and flexible customer experience regardless of how, when and where our customers choose to shop with us.



Our Linen Lovers loyalty program has had another exceptional year with membership numbers increasing by 17%, now representing 75% of our revenue. Linen Lovers remains the centre piece of both our customer engagement and our marketing efforts across all our channels and store formats. Our omni channel approach to loyalty has shown that our multi-channel customer is more engaged and committed to the Adairs brand, with a higher average spend per transaction than customers utilising just one channel. Further, our Linen Lover customer has a greater propensity to shop more broadly across the product categories relative to our other customers.

Enhancing our loyalty program to both build the number of members and capture a higher share of her spend will remain a continued focus for the business over the coming years.

### *An agile and efficient supply chain*

Modern omni channel retailing requires our distribution network to efficiently move inventory through our distribution centres to stores together with direct to customers. Our systems and processes must also support inventory movements between stores, and “in reverse” for returns, as well as between Australia and New Zealand. The current complexity and expense of this supply chain is a challenge, but it also presents scope to develop and leverage a sustainable competitive advantage.

As our business continues to grow there is significant shareholder value to be unlocked by optimising the capacity, productivity and efficiency of this aspect of our business.

In FY19 we exceeded capacity in our primary distribution centres and activated overflow capacity in secondary centres. This change caused considerable inefficiencies and contributed to materially higher operating costs. These costs fundamentally stem from additional handling and movement of our inventory, and additional costs associated with the set-up of the secondary facilities.

Significant work has gone into identifying and developing a solution that will see us consolidate our distribution centres into a single facility in Victoria. This will be supported by an upgrade to our warehouse management system and the introduction of a range of other technologies to improve capacity, speed, efficiency and productivity.

Consistent with our project timeline, we are in the final stages of negotiations with a number of parties and expect to be able to announce details of the new facility, including projected costs, early in the new year.





The restructure of our supply chain will be implemented over the next 2 years, with the new facility expected to be operational by the beginning of FY22. In the meantime we have identified and begun implementing short and medium term initiatives that will improve our capabilities and productivity within the existing facilities to both lower our cost to serve and improve our customer experience. While we can certainly operate our facilities more efficiently than we did in FY19, we acknowledge that a step change in our supply chain costs will only occur once the new facility is operational.

### Current Year Trading

Turning now to the new financial year. Trading for the first 16 weeks of FY20 has delivered like-for-like sales growth of +3.3% with stores sales +0.8% and online sales +16.6%.

Whilst this represents a slight slowing in like-for-like sales growth, our clear focus in the current environment, particularly against a backdrop of continued AUD/USD weakness, has been on growing our like-for-like Gross Margin dollars. We are pleased to report that by working with our product suppliers and managing our discounting and promotional activity levels we are making good progress on this.

Our key sale periods, including Christmas, lie ahead of us and we are well placed in terms of planning and inventory to deliver our customers with the product and experience that they have come to expect from us during these important periods.

Given this, and having regard to the year to date performance, the Board remains comfortable that the FY20 guidance previously provided remains appropriate.

### Summary

In summary, FY19 was a good year for Adairs in terms of revenue growth, and the issues that impacted our overall profitability are well understood and largely addressable.

Importantly, the strategies we already have in place remain key levers putting us in a strong position to continue to deliver profitable growth over the coming years.

Finally, I would like to particularly thank our team and our loyal customers who continue to support our business. We remain singularly focussed on delivering a great retail experience for our customers and continued growth for our shareholders.

Thank you



**ENDS**

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