



Release to the Australian Securities Exchange

Adairs Limited

Acquisition of Mocka and current FY20 guidance updated to include Mocka

Wednesday, 4 December 2019

Adairs Limited (ASX: ADH) today announced that it has entered into a binding agreement to acquire all of the shares of Mocka Limited ("Mocka") for a notional initial enterprise value of c.NZ\$80m (A\$75.5m). The agreement is subject to satisfaction of customary conditions and is expected to complete in mid-December.

Mocka is a highly efficient, vertically integrated and profitable pure-play online retailer of home and living products operating in Australia and New Zealand, with a strong track record of growth, attractive margins, and high levels of profitability and cash generation.

Founded in 2007 and family owned, Mocka sells well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories. From its start in baby, kids and nursery products categories, Mocka has expanded and grown over recent years to offer a wide range of household furniture products.

Mocka's range is carefully curated and the products are designed to co-exist across ranges and categories. Mocka products seek to offer customers a strong value-for-money proposition.

All product design, development, sourcing and marketing is undertaken in-house which allows for a unique product offering. The company distributes product from its two distributions centres in Brisbane and Christchurch and has dedicated functional teams in both countries. These operations will continue to support the Mocka business on a dedicated basis.

Key financial highlights include¹:

- Implied acquisition EV/EBIT multiple of 8.7x FY20 EBIT (without synergies) based on enterprise value of NZ\$80m (A\$75.5m)
- Increases Adairs' online revenue to c. 29% of total revenue (pro forma FY20 of >A\$100m)
- Accretive to Adairs' FY20 pro forma revenue growth and EBIT margin (without synergies)
- Delivers pro forma FY20 EPS accretion of c.10%
- Transaction structure which balances motivation, retention and succession planning with the vendors
- Pro forma Net Debt / FY20 EBITDA for the group of ~1x

Note:

1. Based on Adairs assessment of Mocka normalised financials and latest Adairs financial plan, assumes AUD/NZD exchange rate of 1.06. Pre AASB 16 adjustments.

Adairs Limited

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Complementary acquisition

Speaking on the acquisition, Mark Ronan, Managing Director and CEO of Adairs said:

"Mocka is a highly complementary and attractive acquisition for Adairs. We have shared DNA in that we are both design-centric with in-house product design and development which allows us to offer our customers high quality "design led, value for money" differentiated product. Importantly, this also means we have significant control of the vertical supply chain and in market pricing. Finally, we are each highly customer centric organisations, with a passion for great service.

For our shareholders this acquisition creates a larger more diversified business with increased exposure to the fast-growing online channel. Our online sales will increase from 17% of total sales in FY19 to almost 30% on a pro forma basis after normalising for a full year's contribution from Mocka in FY20. Mocka is highly profitable and cash generative with low recurring capex and lease commitments. The acquisition is expected to deliver normalised earnings accretion of approximately 10% in FY20 (pro forma, with no synergies assumed).

We see many opportunities for Adairs to add value to an already successful business. Our knowledge and experience of the home market will allow us to help 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 existing management team who have successfully developed the business to this point continuing to lead their operations and strategy.

The acquisition is not expected to change Adairs' existing dividend policy or impact the scope or timing of the supply chain initiatives currently under review.

Funding

The acquisition will be funded through a combination of Adairs' group term debt facilities and an issue of c.3.2 million ordinary ADH shares to the vendors.

Approximately 65% (NZ\$52m/A\$49.1m) of the consideration will be paid at settlement in mid-December 2019, of which NZ\$6m (A\$5.7m) will be paid in the form of ADH shares and the balance (NZ\$46m/A\$43) in cash. These new shares will equate to c.1.9% of Adairs' expanded issued capital and will be escrowed until the release of Adairs' FY21 results.

The remaining 35% (notionally NZ\$28m/A\$26.4m based on the initial enterprise value of NZ\$80m) will be paid in stages over the next 2-3 years subject to Mocka's earnings, based on a notional valuation multiple of 7.5-8.5x Mocka standalone EBIT in the relevant future periods. The deferred consideration is subject to a minimum amount of NZ\$20.0m.



Indicatively, based on our acquisition planning, we expect the deferred consideration amounts to be:

- a further NZ\$14-17m (A\$13-16m) based on the FY21 Mocka EBIT (paid in September 2021) and
- a further NZ\$24-27m (A\$23-25m) based on FY22 Mocka EBIT (paid in September 2022)

The vendors have an option to defer up to 40% of the FY22 deferred consideration component to FY23 (i.e. 8% of total) to be based on Mocka's FY23 EBIT.

Adairs expects total consideration for Mocka to be in the range NZ\$90-96m (A\$85-91m), which equates to an "all in" blended multiple of 6.7 - 7.2x expected FY22 forecast EBIT.

FY20

Speaking on the current trading environment Mr Ronan said:

"We had a successful Linen Lovers Event in November and are well placed in terms of planning and inventory ahead of the important Christmas trading period."

The Board remains comfortable that the FY20 guidance previously provided for Adairs (ex Mocka) remains appropriate.

Based solely on a 30-week contribution from Mocka in FY20 the Board has issued revised guidance as shown in the table below. For illustration purposes only we also provide FY20 guidance numbers based on a pro forma full year contribution from Mocka.

(A\$m)	Adairs FY20 guidance (unchanged)	Adairs FY20 guidance incl Mocka ¹	Illustrative Adairs FY20 guidance incl Mocka Pro forma for full year ²
Year end stores (#)	169-171	169-171	169 - 171
Sales	360-375	385-400	400 – 415
EBIT ³	43-46	48-52	52 – 56
Capital Investment	8-10	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 1.06
3. Excludes transaction costs and AASB 16 adjustments.



Conference Call

A conference call for investors and analysts to discuss this acquisition, hosted by Mark Ronan (Managing Director and Chief Executive Officer), will be held at 11:00AM (Melbourne time) today, Wednesday 4 December.

You may join the call by dialling **(02) 9007 8048** or **1800 908 299 (toll free)**. When prompted, please provide the CONFERENCE ID: **10003092** to the operator. Participants 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/>).

Release date for interim results

Adairs anticipates releasing its interim results for the first 6 months of FY20 on Friday 21 February 2020.

For further information please contact:

Investors

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About Adairs

Adairs Limited (ASX: ADH) is a retailer of home furnishings in Australia 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 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