Acquisition of Mocka

Mark Ronan, MD & CEO
Ashley Gardner, CFO

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Transaction overview

Adairs has agreed to purchase Mocka, a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand

Transaction	▪ Adairs to acquire 100% of Mocka for a notional Day 1 Enterprise Value of NZ$80m (A$75.5m), consisting of A$43.4m payable in cash and A$5.7m in escrowed ADH shares up front (collectively 65%) and deferred payments which are variable based on adjusted Mocka earnings in FY21, FY22 and potentially FY23 (35% of notional initial EV). – Adairs expects total consideration for the business to be NZ$90-96m (A$85-91m), which equates to 6.7-7.2x FY22F EBIT – Refer Appendix 1 for further detail on deferred consideration ▪ Mocka will operate independently of Adairs, with existing management continuing to lead Mocka
Strategic rationale	▪ Mocka has consistent strong sales growth and margins with high levels of profitability and cash generation ▪ Clear rationale centered on strategic fit and attractive growth profile: – Differentiated, fast growing, vertically integrated home and living products retailer operating in a logical adjacency to Adairs – Increase in online exposure, growth and immediate pro forma double-digit EPS accretion (without synergies) – Adairs is well positioned to support management to accelerate and de-risk the execution of Mocka's growth strategy
Funding	▪ Consideration funded through: – an increase in Adairs' group term debt facility to A$90m with extended expiry to March 2023 – a placement of c.3.2m shares (1.9% of ADH) to the vendors at $1.80 per share (A$5.7m), escrowed until the release of Adairs' FY21 results ▪ Increased facilities remain comfortably within existing covenants ▪ Upfront payment settles in mid December 2019
Acquisition metrics and financial impact	▪ Notional Day 1 EV approximately 8.7x FY20 EBIT[1] (no synergies) ▪ The acquisition is expected to: – deliver pro forma EPS accretion[1] in FY20 of c.10% – increase Adairs' online revenue mix to c.29% of total revenue[1] (pro forma FY20 of >A$100 online) ▪ No change to Adairs' existing dividend policy (60%-85% of net profit after tax) and no implications for existing supply chain review

Source: Adairs assessment of Mocka forecast, Adairs financial plan .
Notes 1. Based on Adairs assessment of Mocka's pro forma normalized full year contribution and the midpoints of latest Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.06. Pre AASB adjustments.;

A complimentary strategic fit for Adairs

Attractive growth profile and opportunities for material value creation

Highly complementary, attractive acquisition

- Mocka is highly complimentary to Adairs with similar philosophy
  - both offer exclusive product, providing control of the vertical supply chain and pricing
  - both are positioned as “design led, value for money”
  - both are design centric with in-house product design/development and IP ownership
  - Both are committed to superior customer service
- Pure online retailer in a large and growing category (more furniture focus)
- Creates a larger more diversified business with increased exposure to the online channel
- Highly profitable and cash generative with low capex requirements

Opportunities for Adairs to add value

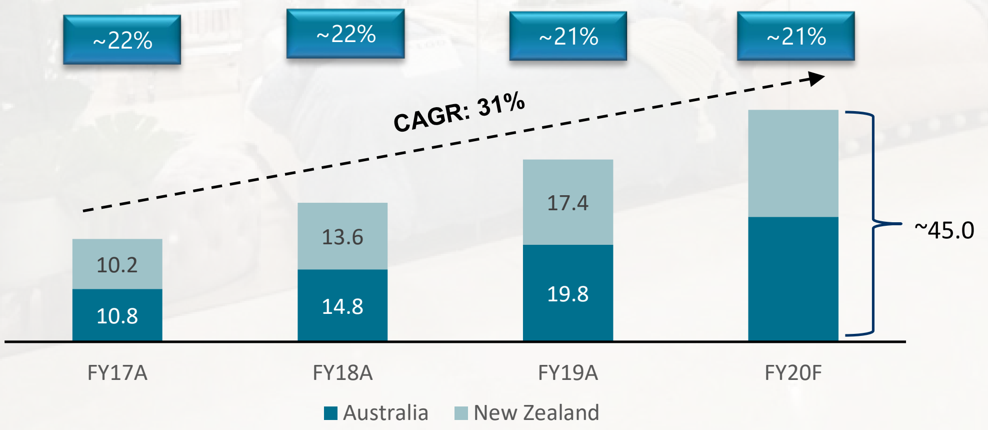
- Use our digital and social media assets to leverage our understanding of the Australian home consumer to enable:
  - increased brand awareness of Mocka products in Australia
  - more efficient customer acquisition in Australia
- Accelerate and de-risk Mocka’s range expansion, initially into soft home furnishings
- Help build systems and team to deliver future growth at lower risk

Mocka overview

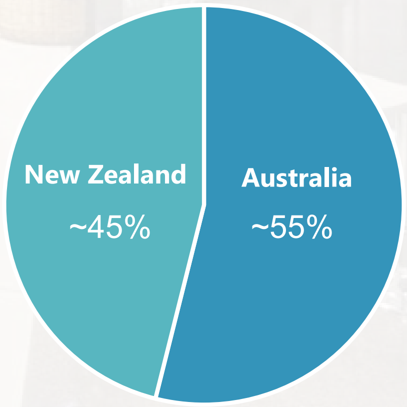
Highly efficient, vertically integrated, profitable pure-play online home and living products retailer with strong track record and significant growth potential remaining

- Pure-play online retailer offering well designed, highly functional and stylish home and living products at 'value' prices (everyday best prices – not high/low)
- Vertical integration
  - All product design and development done in-house
  - Long-standing manufacturer/supplier relationships
- Design-led and quality focused (better designed, higher quality, affordable)
- Targeting 'design centric' but commercial mums who focus on quality, value for money and enjoy online shopping
- Operates its own distribution centres in Christchurch and Brisbane
- Founded in 2007 and family owned, supported by a small but developing professional management team. See Appendix 2 for more business history.

Revenue ($NZm) and normalised EBIT margin[1]



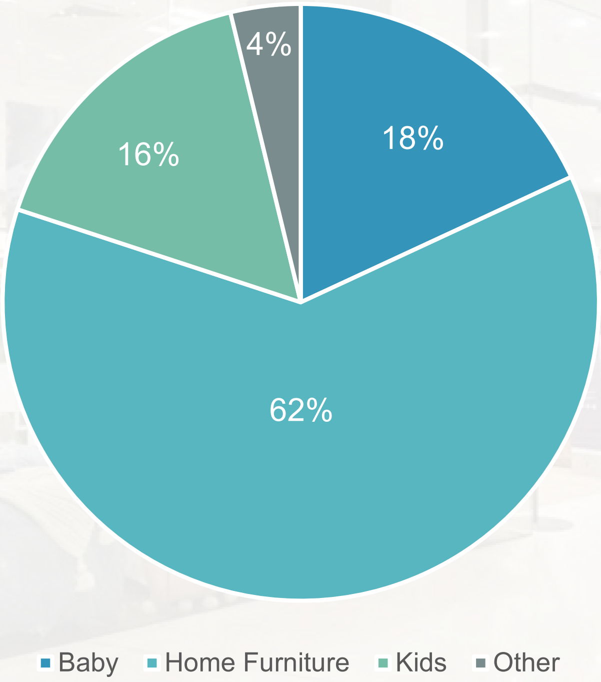
FY20F revenue by geography



Source: PwC VDD report for historical period with pro forma adjustment by Adairs. Forecasts are Adair's view based on Mocka financial VDD report (FY20F)
Note: 1. Normalised financials, constant currency. Pre AASB 16 adjustments.

Mocka - well designed, functional and stylish home and living products

FY20F revenue by product



Delivering great product and compelling everyday value-for-money is core to the Mocka offer

Design-led products and an efficient vertically integrated business model

Mocka is a design-led product business

- In-house design team enables differentiated product to be developed for customers
- Enables Mocka to ensure they deliver value and quality at sustainable margins
- Versatile design and aesthetic allows products to co-exist across ranges and categories
- Highly curated range with distinctive Mocka “handwriting”
- Designed with a contemporary family home in mind

Design-led products and an efficient vertically integrated business model

... with vertical integration

- Exclusive product offering
- Coordinated look across categories
- Strong value-for-money proposition
- In-house marketing
- Operates its own DC's
- Consistent product quality and compelling value for money
- Attractive margins
- Strongly profitable and cash generative

Design-led products and an efficient vertically integrated business model

... and significant growth opportunities

- Supporting Mocka's range expansion both in category and in options is a significant opportunity
- Continuing to invest in digital and technology to enhance the customer experience
- Scope for greater brand awareness, shopping frequency and market penetration (especially in Australia)

Deal structure and funding

Acquisition of 100% of the shares in Mocka, with part of the consideration deferred

Acquisition structure

- 100% acquisition for a notional initial EV of NZ$80m (A$75.5m) on cash and debt free basis (8.7x FY20F EBIT)
- 65% paid up front, of which NZ$6 million (A$5.7m) paid in ADH shares
- 35% deferred, paid
  - 15% in Sep-21 (based on FY21 EBIT) and
  - 20% in Sep-22 (based on FY22 EBIT), with vendor option to defer up to 40% of FY22 (8% of total) deferred consideration to FY23
- The deferred consideration is subject to a minimum amount of NZ$20.0m.

Funding

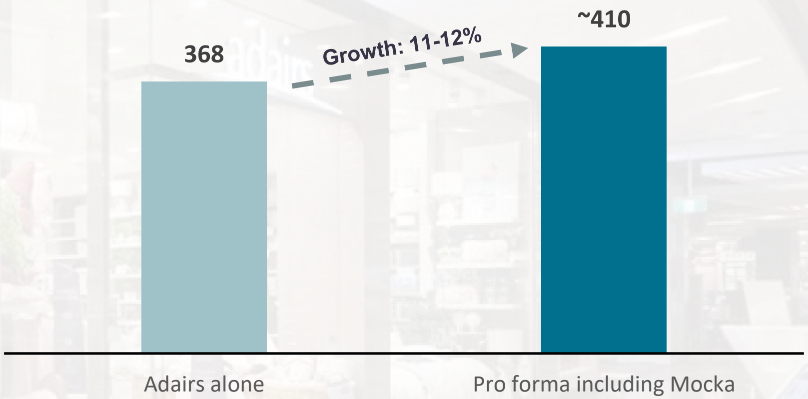
- Upfront consideration funded through an increase of Adairs group term debt facility to A$90m (previously $48.75m)
- Extension of facility expiry to March 2023
- Increased facilities remain comfortably within existing covenants
  - Expect pro forma Net Debt[1] / EBITDA ~ 1x over next 3 years
  - Improved Fixed-Charge Coverage Ratio
  - Pro forma Debt[1] to Capital ratio approx. 30%

Note 1: Debt excludes deferred consideration; Pre AASB 16 adjustments.

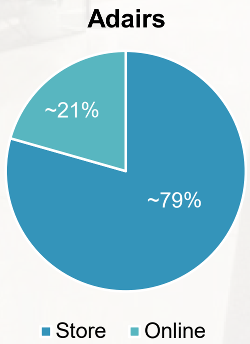
Financial implications for Adairs

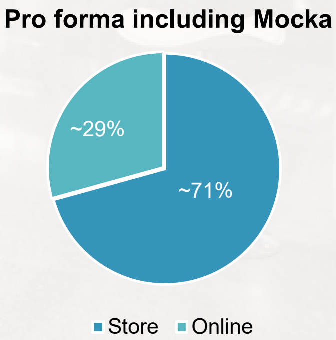
The acquisition will improve Adairs' financial profile, increase its exposure to the fast-growing online channel and further diversify its revenue across Australia and New Zealand

Pro forma FY20F revenue[1] (A$m)



Pro forma FY20F revenue mix[1] (%)





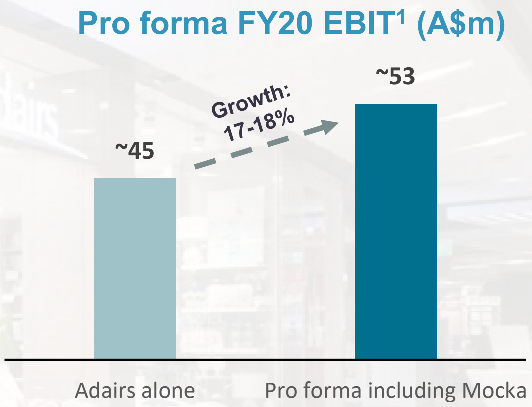
Source: Adairs assessment of Mocka financials, Adairs financial plan

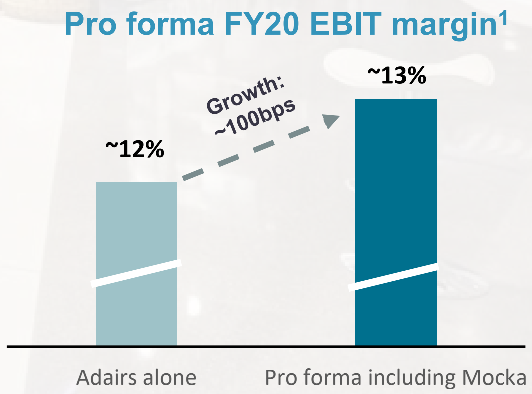
Notes:

1 Based on Adairs assessment of Mocka's pro forma normalized full year contribution and the midpoints of latest Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.06

Financial implications for Adairs

The acquisition is immediately accretive to earnings without any assumed synergies





Source: Adairs assessment of Mocka financials, Adairs financial plan
Note 1. Based on Adairs assessment of Mocka's proforma normalized full year contribution and the midpoints of latest Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.06; Pre AASB 16

Revised FY20 outlook

Revised FY20 guidance

- The Board remains comfortable that the FY20 guidance previously provided for Adairs (ex Mocka) remains appropriate
- Based solely on the inclusion of a 30 week contribution from Mocka in FY20 the Board has issued revised guidance as shown 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 and the midpoints of latest Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.06;
3. Excludes transaction costs and AASB 16 adjustments

Appendix 1 – Details of deferred consideration

Deferred consideration structure and rationale

- Indicatively, based on our acquisition planning, we expect the deferred consideration amounts to be[1]:
  - 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)[2] 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.
- Amounts are based on notional valuation multiple of 7.5-8.5x Mocka standalone EBIT in the relevant period
- The deferred consideration is subject to a minimum amount of NZ$20.0m.
- Mechanics are designed to share the upside (and risks) of performance of the business with the vendors over the medium term and align them with Adairs to achieve strong and sustainable earnings growth over this next 2.5-3.5 years.
- 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

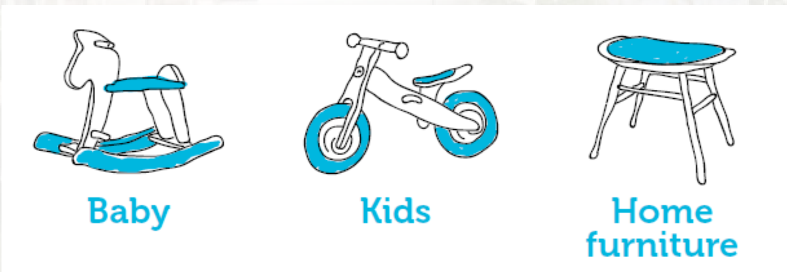
Notes:
1. Deferred consideration amounts are estimates only and are uncapped. They could be higher or lower in scenarios of out/under performance in relevant periods.
2. Assumes vendors have not elected to defer FY22 deferred consideration into FY23.

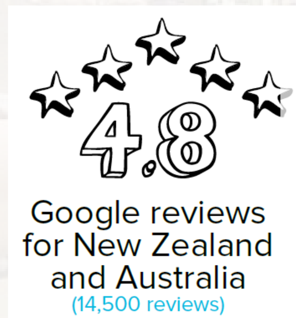
Source: Based on Adairs assessment of Mocka's pro forma normalized full year contribution and the midpoints of latest Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.06 and pre AASB 16 adjustments;

Appendix 2 – Mocka's history

- Mocka was started by the founders in 2007 out of their garage in Christchurch, New Zealand. Its initial focus was on baby and children's furniture and toys.
- Mocka Australia was established in 2011, which coincided with additional family members becoming involved in the business and the original founders moving to Australia to oversee the launch in that market
- From around 2011, Mocka began broadening their product range as their customer base grew and as it became clear that the families that were purchasing from them were similarly growing up and had a need for general home and living products. From here, the Mocka vision developed to:

"To enhance people's lives and environments through offering well designed, highly functional and stylish home and living products at exceptional prices"





- In 2014 Mocka New Zealand moved into new distribution and head office premises in Wigram, Christchurch (where it remains situated)
- By June 2018 – 39 months after opening in Australia - the number of Australia-only Instagram followers hit 100k (taking total social media followers to 350k).
- In 2018 Mocka Australia consolidated its multiple premises on the Sunshine Coast into a dedicated DC in Brisbane