Adairs
1H FY20 Results Presentation
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1H FY20 highlights

Omni-channel strategy continues to drive sales across both channels

- Sales +8.6% to $178.9m with LFL sales +6.9%
- Online sales +31.6% to $31.6m (18% of total sales)
- Stores sales +4.9% with LFL store sales +2.4%

Strong gross profit result

- Gross profit +9.0% to $109.3m
- Gross margin rate up 20 bps to 61.1%

Underlying EBIT up 4.2% to $23.2m

- Stronger gross profit more than offset growth in CODB
- CODB increases reflect investment to support future growth

Interim dividend

- 7.0 cent per share fully franked interim dividend declared (6.5 cents per share in 1H FY19)

Mocka acquisition

- Profitable pure-play online retailer in logical adjacency

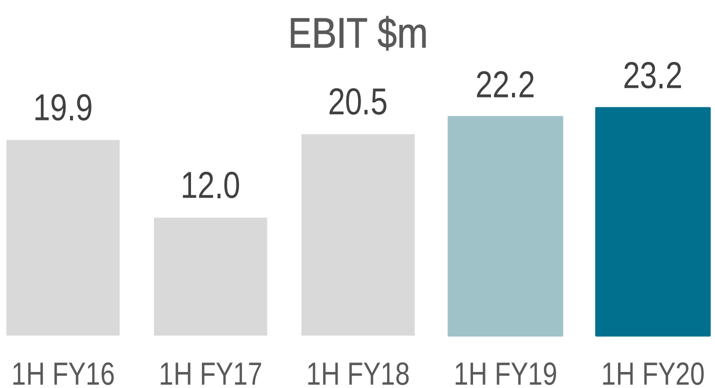
Supply chain strategy

- New DC strategy confirmed (operational July 2021)
- Annual cost savings of c.$3.5m per annum from FY22
- Improved customer service and flexibility
- Capital-light approach selected (3PL)

Note: Unless otherwise noted, 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

Profit and Loss

($ Million)	Pro forma 1H FY20	Pro forma 1H FY19	%
Sales	178.9	164.7	8.6%
Gross Profit	109.3	100.3	9.0%
Gross Profit %	*61.1%*	*60.9%*	*+20bps*
CODB	(82.3)	(74.3)	10.7%
CODB %	*46.0%*	*45.1%*	*+90bps*
EBITDA	27.0	26.0	3.9%
EBITDA %	*15.1%*	*15.8%*	*-70bps*
EBIT	23.2	22.2	4.2%
EBIT %	*13.0%*	*13.5%*	*-50bps*

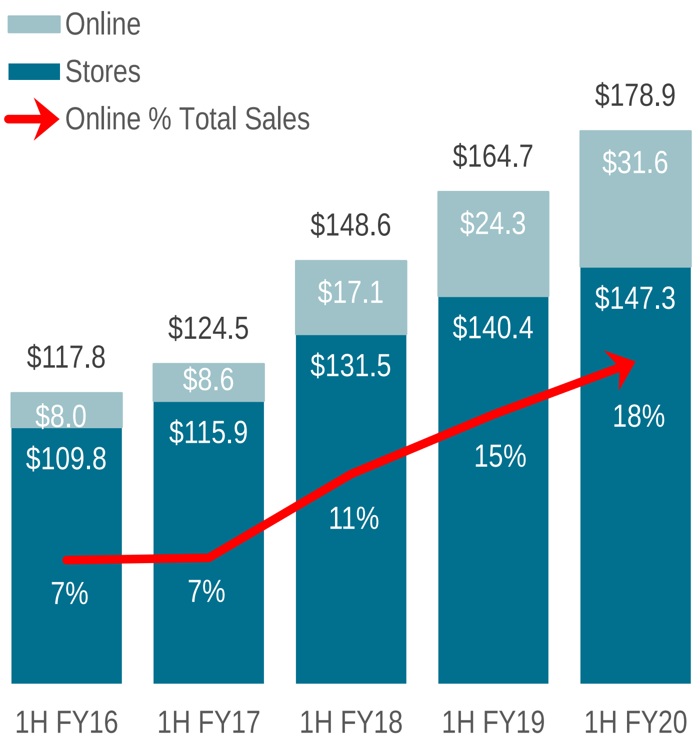


Record sales and profit

- Omni-channel strategy drove sales +8.6% with LFL sales +6.9%
- Gross Profit +9.0% over 1H FY19
- Gross Margin +20bps to 61.1%
  - benefits from a coordinated program of sourcing and pricing initiatives, combined with a focus on reduced depth of markdowns, more than offset the impact of a weaker Australian dollar.
- CODB up 10.7% reflecting:
  - increased costs associated with our growth in online sales (postage / merchant fees / wrap & pack)
  - continuation of interim supply chain measures (comparable to 2H FY19)
  - investment in initiatives to support future growth, including our digital platform and the enhancement of our executive leadership across key growth areas of our business

Note 1: Pro forma 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

Sales $m



Sales growth across both channels

Total sales (ex Mocka) up 8.6% with like for like sales up 6.9%

Stores: Sales up 4.9% on LY with LFL growth of 2.4%

- Sales growth driven by strong performance across our core categories and ongoing growth from key expansion areas of Adairs Kids and Home Decorator
- Opened 5 new stores and upsized one additional store to increase group gross lettable area (GLA) by 5.5%

Online (ex Mocka): Sales up 31.6% and contributed 18% of total sales

- Growth delivered by strong execution of our digital strategy and our omni channel approach – in particular across expansion categories

Note: The above analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

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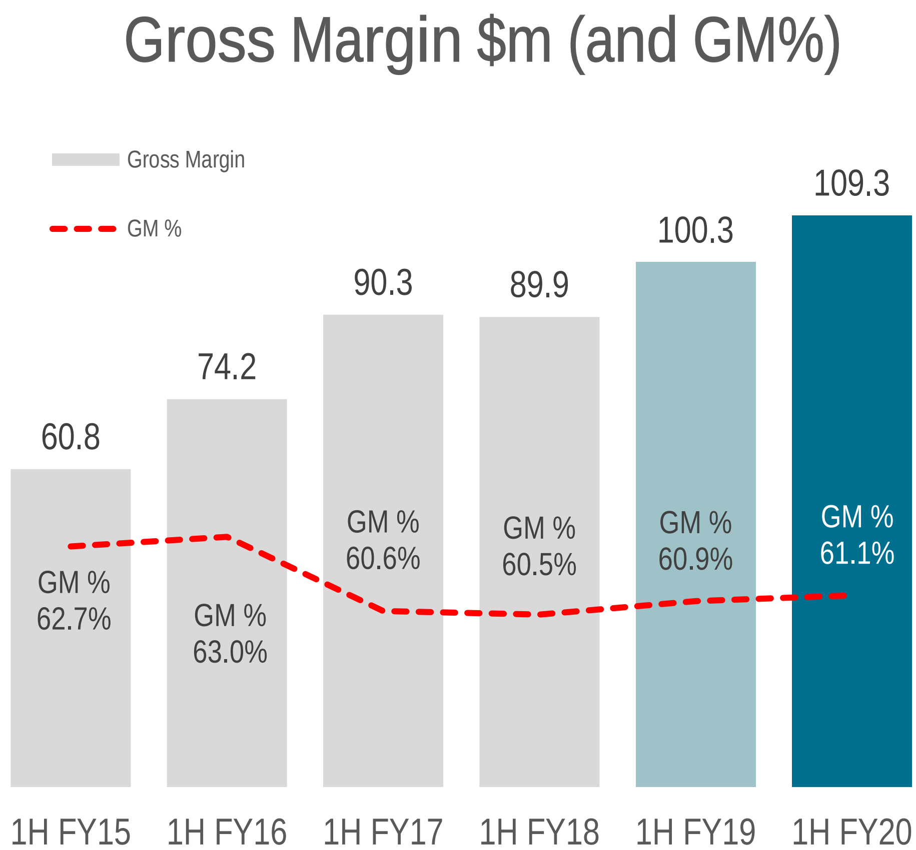
Gross Profit and Gross Margin drivers



Underlying gross profit margin rose 20 bps to 61.1%

Impact of the weaker AUD has been fully offset by:

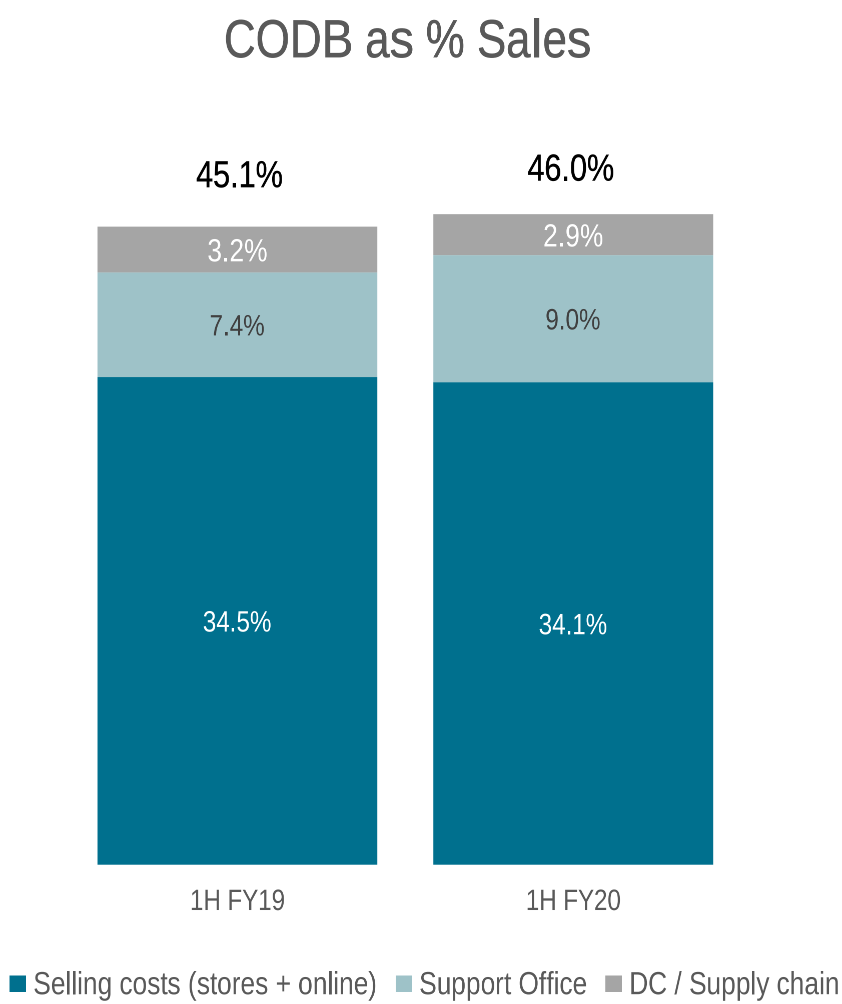
- sourcing initiatives to reduce suppliers landed costs
- review of price points with selective price increases across most categories; and
- reduced depth of discount throughout the season

Hedging policy has been revised to allow extended cover up to 18 months forward. This will reduce margin volatility and provide more time for the business to make adjustments in response to a weaker AUD

- 2H FY20 is fully hedged at 0.70 (LY 0.73) with initiatives already in place to offset the impact of the lower AUD/USD rate

Note 1: Analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

CODB



Stores/Online CODB %

Operating leverage achieved in both Stores and Online

- Store contribution increased as LFL sales growth exceeded store cost growth
- Lower occupancy cost (as a % of sales) through:
  - upsizing stores, and
  - favourable renegotiation of existing store leases
- Operating leverage achieved in online with online profit contribution increasing over the half

Support Office CODB %

- Investment in talent and capability, including in executive leadership across the key growth areas of our business
  - Supply Chain, Digital, Finance and Strategy

DC / Supply Chain CODB %

- From 2H FY20 DC costs will stabilise (as a % of sales) as the impact of the short-term initiatives implemented in Q2 of FY19 are annualised
- Ongoing focus on short term initiatives to improve service and efficiency ahead of the new DC

Note 1: Pro forma 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.
Note 2: DC Operating costs include costs to support stores. Online fulfilment costs are included in selling costs.
Note 3: A breakdown of CODB as a % of sales using our historic categorisation is provided in Appendix 5

Balance Sheet

($ Million)	Dec-19 Pro forma	Mocka	IFRS16	Dec-19 Statutory	Jun-19 Statutory
Cash and Cash Equivalents	8.4	2.5	-	10.9	16.7
Inventories	46.3	7.5	-	53.7	42.8
Plant and Equipment	20.5	0.6	-	21.1	20.9
Goodwill and Intangibles	114.7	78.7	0.2	193.7	113.5
Right of Use Asset	-	-	90.9	90.9	-
Other Assets	9.4	2.8	2.5	14.7	9.6
Total Assets	**199.3**	**92.1**	**93.7**	**385.0**	**203.5**
Payables	39.0	1.5	-	40.5	29.7
Borrowings	10.7	46.5	-	57.1	24.9
Provisions	13.7	0.2	(6.4)	7.5	12.9
Lease Liabilities	-	-	105.2	105.2	-
Other Liabilities	19.0	38.1	-	57.1	17.7
Total Liabilities	82.4	86.2	98.8	267.5	85.2
Net Assets	**116.8**	**5.9**	**(5.1)**	**117.6**	**118.3**

AASB 16 impact on Balance Sheet:

- $105.2m lease liability
- $90.9m right of use asset
- $6.4m reversal of rent provisions
- $2.5m deferred taxes

- No impact on net cashflows
- No impact on credit profile
- No impact on debt covenants
- No impact on shareholder value

- Inventory is clean and well managed. Increase of $3.5m reflects:
  - current year growth in selected product categories
  - addition of 6 new/upsized stores
  - higher stock-in-transit ahead of Chinese New Year
- Net debt $46.3m
  - new borrowings of $48m for Mocka
  - strong free cashflow saw pre-Mocka borrowings paid down by $15m
- Capacity to draw a further $32m under our current facility if required
- Post Mocka we remain comfortably within our existing covenants
  - Bank Debt to Capital ratio sits at 33%
  - Pro forma Net Bank Debt / EBITDA ratio will remain ~1x over the next 3 years.

Note 1: Pro forma 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

Mocka acquisition – financial impact

Acquisition structure

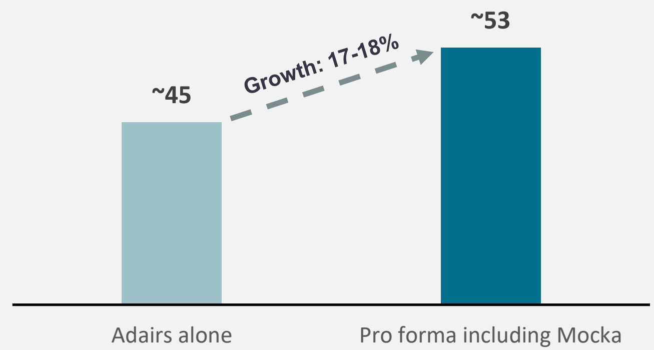
- Mocka was acquired by Adairs in December 2019
- Adairs has recognised an initial purchase price of c.$81.8m for 100% of Mocka on a cash and debt free basis
- A$53.2m paid up front, of which c.A$5.7m paid in ADH shares (escrowed until Adairs' FY21 results)
- The balance of the consideration (equivalent to 35% of a notional initial Enterprise Value) is deferred and remains variable based on future Mocka earnings as follows:
  - 15% paid in Sep-21 (based on FY21 EBIT) and
  - 20% paid in Sep-22 (based on FY22 EBIT), with vendor option to defer up to 40% of FY22 (8% of total) to FY23
- Deferred consideration is subject to a minimum of NZ$20m

Funding

- Upfront consideration funded via 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
- No change to Adairs' existing dividend policy (60%-85% of net profit after tax)

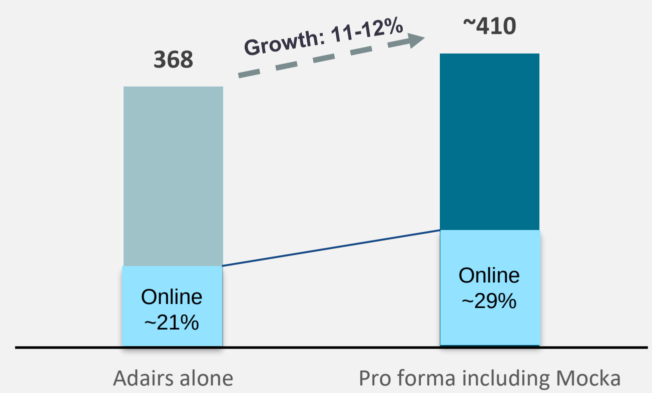
Financial implications for Adairs

Pro forma FY20 EBIT[1] (A$m)



- Immediately accretive to earnings (no synergies)

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



- Increased exposure to fast-growing online channel

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 1.04; Pre AASB 16

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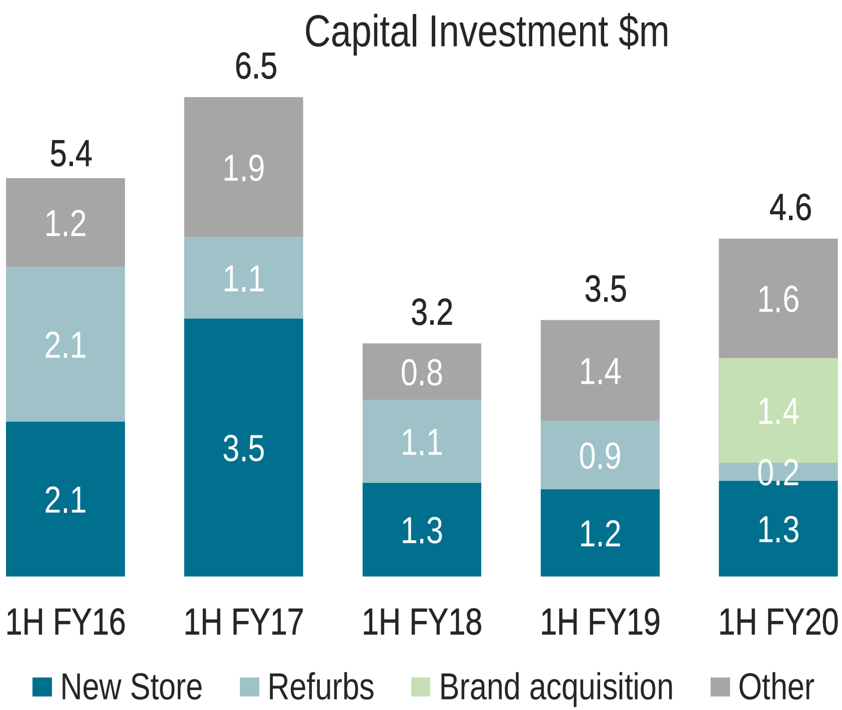


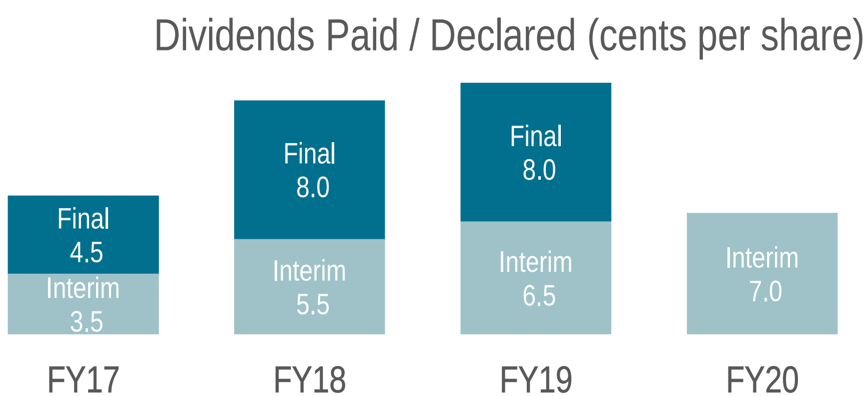
Investing for growth

- Opened 5 new stores in 1H FY20
- 2 refurbishments completed including 1 upsized store
- Other capex of $1.6m consists of Customer Support Office, supply chain and digital platform capex
- Acquisition of Mark Tuckey brand as part of a long-term collaboration initiative
- Further investment expected in 2H to support growth strategies
  - Continued investment in digital capability
  - Store rollout (1-2 stores) and upsizing (3-5 stores) across Australia and New Zealand

Cash flow and dividend

($ Million)	Pro forma 1H FY20	Pro forma 1H FY19	Change
Opening Cash	16.7	12.7	4.0
Operating Cash Flow	25.9	18.9	7.0
Investment Cash Flow	(3.8)	(3.6)	(0.2)
Financing Cash Flow	(29.0)	(13.3)	(15.8)
Net Cash Flow	(6.9)	2.1	(9.0)
Proceeds from Borrowings - Mocka acquisition	48.0		48.0
Mocka acquisition net of cash acquired (incl. transaction costs)	(49.4)		(49.4)
Net Cash Flow *(with Mocka acquisition)*	(8.3)	2.1	(10.4)
Closing Cash	8.4	14.8	(6.4)

Note: Pro forma 1H FY20 v 1H FY19 cash flow analysis is after removing the impact of the Mocka acquisition and AASB 16 (Leases). See Appendix 4 for reconciliation.



Cash flow

- Strong growth in operating cashflow
- Additional borrowings of $48m to fund the acquisition of Mocka and related costs ($49.4m)

Dividend

- Interim dividend of 7.0 cents per share, fully franked (up from 6.5 cents per share in 1H FY19)
  - Record Date 2 April 2020
  - Paid 16 April 2020

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Executing on strategy

Our omni-channel strategy is delivering … and will be further enhanced by the new National Distribution Centre ("NDC")

- Sales +8.6% with online sales +31.6% and LFL store sales +2.4% is confirmation that our integrated omni-channel strategy is working
- Our domestic supply chain strategy, including the new NDC, is a key component of our goal of enabling our customers to shop Adairs anyway, anywhere and anytime they choose

Strategic pillars	First half FY20 achievements
Product, Product, Product	▶ Growth of the expansion categories continues to drive like for like sales +6.9% ▶ Focus remains on providing differentiated on-trend product (Adairs & Mocka)
More Inspiring Larger Stores	▶ Opened 5 new stores, refurbished 2 stores including 1 upsized store in 1H FY20 ▶ GLA +5.5% in 1H with a further 1-2 new and 3-5 upsized stores targeted for 2H FY20
International Expansion	▶ Mocka acquisition increases New Zealand exposure ▶ Opportunity to open further Adairs stores in NZ with 1-2 targeted for 2H FY20
Passionate High Performing Team	▶ Added management expertise into finance, supply chain and digital in 1H FY20 ▶ Customer experience remains a key point of differentiation
Best in Class Omni Retail Capabilities	▶ Ex Mocka, Adairs online sales +31.6% on 1H FY19 representing 18% of total sales ▶ Like for like store sales +2.4% on 1H FY19.
Agile and Efficient Supply Chain	▶ New 3PL NDC plan finalised (operational July 2021) ▶ Will unlock value by optimising supply chain's capacity, productivity and efficiency ▶ Better customer service with lower cost to serve

mocka acquisition

Mocka is a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand

- Consistent strong sales growth and margins with high levels of profitability and cash generation
- Operates independently of Adairs, with existing management continuing to lead the business

Strategic rationale

Excellent strategic fit and attractive growth profile:

- Differentiated, fast growing, vertically integrated retailer operating in a logical adjacency to Adairs
- Increases Adair's online exposure and growth
- Immediate pro forma double-digit EPS accretion (without synergies)

We remain confident that Adairs is well positioned to support Mocka management in accelerating and de-risking their growth strategy

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Supply chain strategy

Strategic review completed and heads of agreement signed with DHL as 3PL partner for our new National Distribution Centre

DHL are a global leader in the design, implementation, and operation of flexible warehousing and distribution solutions.

The new supply chain capability will:

- Deliver a local supply chain solution that supports our strategy to enable customers to shop how, when and where they choose
- Adapt to a changing mix of sales between online and stores
- Consolidate DC operations into one facility – improved stock flow and online order fulfillment
- Improve stock availability in stores through more frequent replenishment options
- Increase capacity and improve service levels for online and stores during peak trading periods
- Materially reduce operating costs – approx. $3.5m pa over the existing model from FY22
- Support business growth for the next 10 years across all channels

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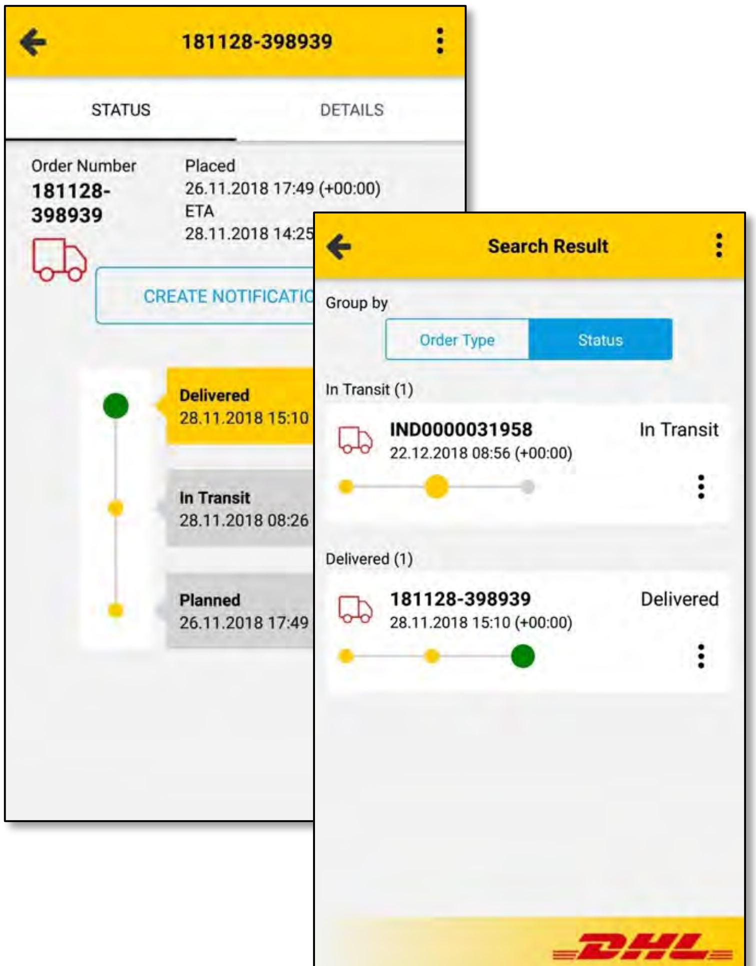
DHL Supply Chain



Supply chain outcome

DC operating model

- 3PL (DHL) as operator
- Single dedicated National Distribution Centre in Victoria to replace 4 existing DC facilities

Benefits of 3PL over own operation

- Lower risk – DHL are a global operator for whom project management and DC operation are a core expertise
- Adairs will only pay for space used (with ability to expand as required in the future)
- Significantly lower up-front capex requirement
- Equivalent long term NPV to own operation with lower up-front capital and lower implementation risk

Annual savings over existing model

- c.$3.5m per annum (from FY22)

Capital requirement

- c.$1.5-2.0m (mainly IT)
- Additional c.$3.5m-$4.0m in one-off/start up and transition costs in FY21

Timing

- Construction and fit out – Apr 2020 to Apr 2021
- Commissioning / transition to new facility – May to Jun 2021
- New facility fully operational – Jul 2021

FY20 Outlook

Trading Update

For the first seven weeks of 2H FY20:

- Adairs generated LFL sales growth of 2.3% and LFL Gross Profit growth of 8.5%

  Whilst this represents a slowing in LFL sales growth, it is part of an ongoing program to reduce:

  (i) our depth of discounting, and

  (ii) the length of time the business is on sale, with almost 7 fewer days of discounting activities relative to the same period in FY19

- Mocka generated like for like sales growth of 16% over the same period last year^

We expect to open 1-2 net new stores and upsize 3-5 existing stores across Australia and New Zealand during 2H FY20.

^ For information only. Mocka was not part of Adairs in FY19

FY20 Guidance

- In balancing the solid 1H FY20 performance against the uncertainties that exist over the near to medium term, including the potential impact of coronavirus (COVID-19), the Company has elected to leave it's FY20 guidance unchanged
- FY20 guidance based on a pro forma full year contribution from Mocka therefore remains as:

(A$m)	Adairs FY20 guidance incl Mocka[1,4] (unchanged)	Illustrative Adairs FY20 guidance incl Mocka pro forma for full year[2,4]
Year end stores (#)	169 – 171	169 - 171
Sales	385 – 400	400 – 415
EBIT[3]	48 – 52	52 – 56
Capital Investment	9 - 11	9 – 11

Notes
1. Based on a 30-week contribution from Mocka
2. Based on Adairs assessment of Mocka's pro forma normalized full year contribution and the midpoints of Adairs guidance, Assumes a constant AUD:NZD exchange rate of 1.04;
3. Excludes Mocka transaction costs and AASB 16 adjustments
4. Assumes no material or sustained impact from coronavirus

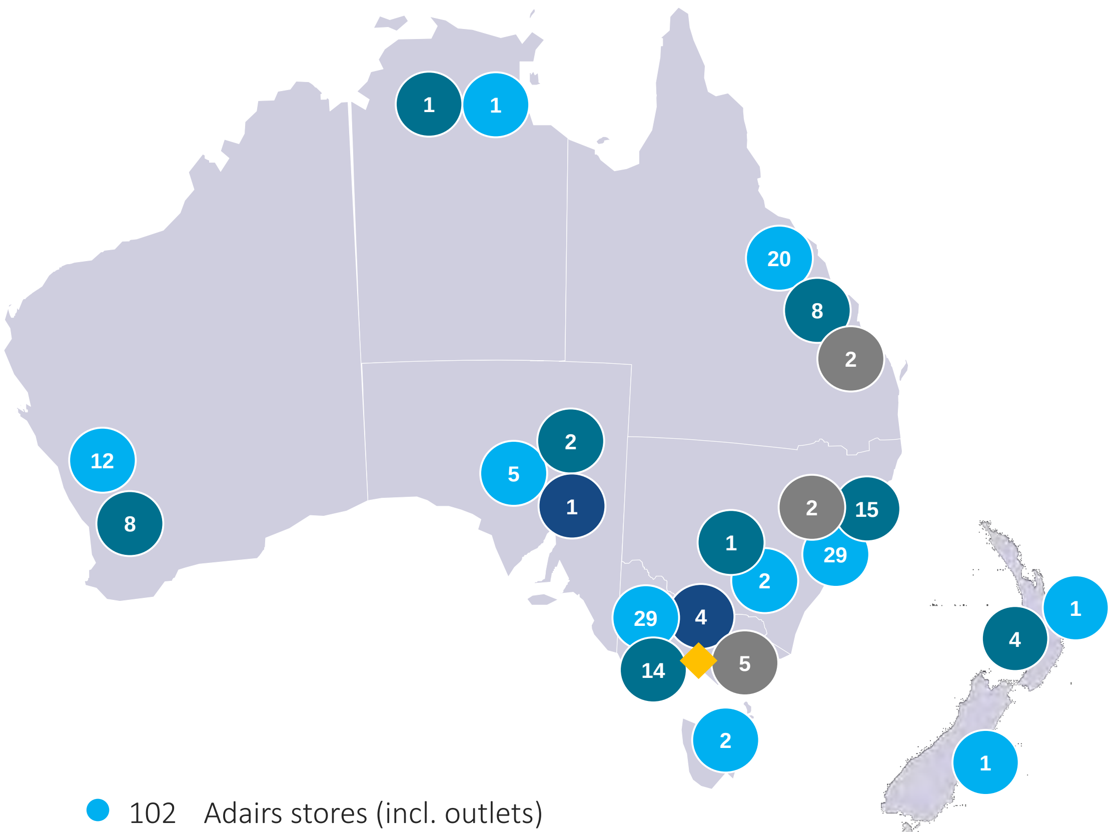
QUESTIONS?

APPENDIX

1. Store footprint
2. Sales LFL history
3. P&L Statutory to Pro forma reconciliation
4. Cashflow Statutory to Pro forma reconciliation
5. CODB analysis

Appendix 1 – Store footprint

Total Stores: 169 (Jun 19: 165)



- 102 Adairs stores (incl. outlets)
- 53 Homemaker stores
- 9 Adairs Kids
- 5 UHR
- DC and HQ

Store Activity (1H FY20)

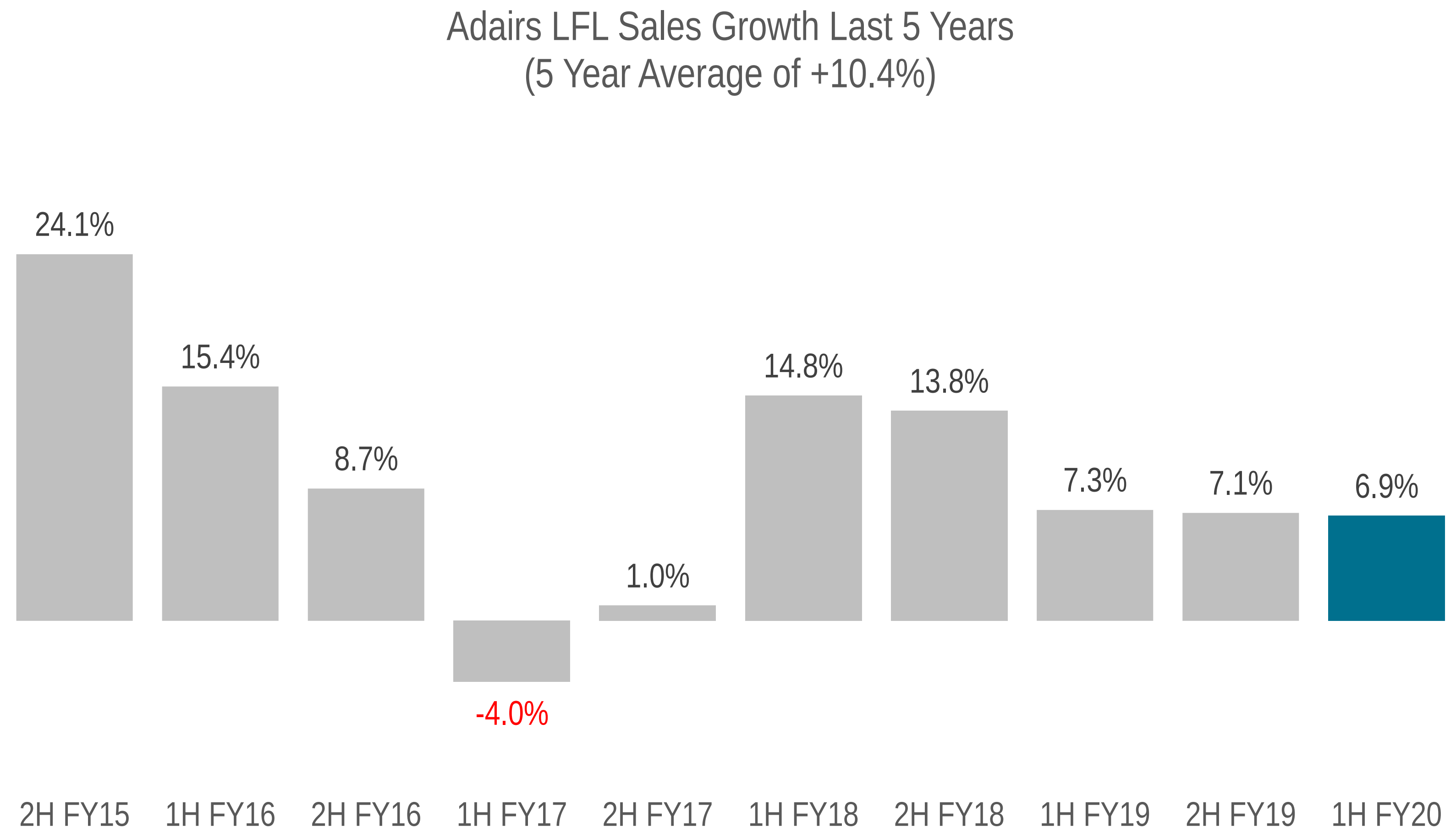
New Stores (5)
Adairs – Orange City Central, Northland
Homemaker – Shellharbour, Waurn Ponds
Adairs Outlet – Liverpool

Upsized/Refurbished Stores (1)
Adairs – Indooroopilly

Refurbished Stores (1)
Adairs – Geelong

Closed Stores (1)
Adairs Outlet – Perth Harbour Town

Appendix 2 – Sales LFL history



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Appendix 3 – P&L Pro forma to Statutory reconciliation

($ Million)	1H FY20 reconciliation: Pro forma 1H FY20	AASB 16 Impact[1]	AASB 15 Impact[2]	Mocka trading[3]	Mocka transaction costs[4]	Statutory 1H FY20	1H FY19 reconciliation: Pro forma 1H FY19	AASB 15 Impact	Statutory 1H FY19
Sales	178.9		(1.0)	2.4		180.3	164.7	(0.3)	164.4
Gross Profit	109.3		(4.9)	0.8		105.2	100.3	(0.3)	100.0
Gross Profit %	*61.1%*					*58.4%*	*60.9%*		*60.9%*
CODB	(82.3)	17.0	4.1	(0.6)	(2.1)	(63.9)	(74.3)		(74.3)
CODB %	*46.0%*					*35.4%*	*45.1%*		*45.2%*
EBITDA	27.0	17.0	(0.8)	0.3	(2.1)	41.3	26.0	(0.3)	25.7
EBITDA %	*15.1%*					*22.9%*	*15.8%*		*15.6%*
Depreciation	(3.8)	(15.0)				(18.9)	(3.8)		(3.8)
EBIT	23.2	2.0	(0.8)	0.3	(2.1)	22.5	22.2	(0.3)	21.9
EBIT %	*13.0%*					*12.5%*	*13.5%*		*13.3%*
Interest	(0.6)	(2.0)				(2.5)	(0.7)		(0.7)
Tax	(6.9)	(0.0)	0.3			(6.8)	(6.5)	0.1	(6.4)
NPAT	15.7	0.0	(0.6)			13.2	15.1	(0.2)	14.9
EPS (cents)						7.8			8.9

Notes::

1. AASB 16 (Leases): From FY20 Lease expenses removed from occupancy expenses and replaced with depreciation of lease assets and interest on lease liabilities over the relevant lease term
2. AASB 15 (Revenue from Contracts with Customers): Reflects the combined impact of (1) deferred Linen Lover revenue now required to be recognised over the 2-year membership period, and (2) postage costs of online sales are now required to be included in our cost of goods sold, and therefore gross margin.
3. Mocka trading: 4 weeks of Mocka trading (1-29 December 2019)
4. Mocka transaction costs: Corporate Advisor, Accounting and Legal transaction expenses associated with the Mocka acquisition

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Appendix 4 – Cashflow Pro forma to Statutory reconciliation

($ Million)	Pro forma 1H FY20	AASB 16 Impact (1)	Mocka Impact (2)	Statutory 1H FY20	Pro forma 1H FY19
	1H FY20 reconciliation				
Opening Cash	16.7			16.7	12.7
Operating Cash Flow	25.9	15.0	(1.6)	39.3	18.9
Investment Cash Flow	(3.8)			(3.8)	(3.6)
Financing Cash Flow	(29.0)	(15.0)		(44.0)	(13.3)
Net Cash Flow	(6.9)	(0.0)	(1.6)	(8.6)	2.1
Proceeds from Borrowings - Mocka acquisition	48.0			48.0	
Acquisition net of cash acquired (incl. transaction costs)	(49.4)		4.2	(45.3)	
Net Cash Flow (with Mocka acquisition)	(8.4)		2.5	(5.8)	
Closing Cash	8.3	0.0	2.5	10.9	14.8

Notes:

1. AASB 16 Impact: The AASB 16 (Leases) impact is a reclassification of cashflows between operating and financing activities with no change in net cash flow
2. Mocka Impact: Reflects the combined cashflow impact of 4 weeks of Mocka trading (1-29 December 2019) together with Business Advisor, Accounting and Legal expenses associated with the Mocka acquisition

Appendix 5 – CODB analysis

CODB	1H FY20	1H FY19	Change (bps)
Salaries & Employee Benefits	23.7%	23.6%	+10
Occupancy Expenses	12.2%	12.8%	-60
Advertising Expenses	2.6%	2.5%	+10
Other Expenses	7.5%	6.3%	+120
Total CODB %	46.0%	45.1%	+90
Total CODB ($ million)	$82.3m	$74.3m	+10.7%

Note 1: Pro forma 1H FY20 v 1H FY19 analysis is after removing the impact of the Mocka acquisition, AASB 15 (Revenue from Contracts with Customers) and AASB 16 (Leases). See Appendix 3 for reconciliation.

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Disclaimer

Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Adairs Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Adairs Limited.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.