**Release to the Australian Securities Exchange**

# Adairs Limited
# 2020 Annual General Meeting

**26 October 2020**
**Adairs Limited (ASX: ADH)**

Please find attached a copy of the presentation to be delivered at the Annual General Meeting to be held at 11:00am (Melbourne time) today together with the Chairman and CEO addresses.

**ENDS**

This announcement has been approved by the CEO of Adairs Limited

For further information please contact:

Jamie Adamson
Head of Investor Relations
Adairs Limited
P: +61 (0) 437 449 935
E: jadamson@adairs.com.au

**About Adairs Limited**

*Adairs Limited is Australia's largest omni channel specialty retailer of home furnishings and home decoration products. We own and operate two businesses in the category, Adairs and Mocka. Both businesses are design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand. Adairs head office is in Melbourne, Australia.*

*For further information visit our investor relations website* www.investors.adairs.com.au

# 2020 Annual General Meeting

**<u>CHAIRMAN'S ADDRESS - MICHAEL BUTLER</u>**

Good morning Ladies and Gentlemen.

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

In response to government restrictions and the potential health risks arising from the COVID-19 pandemic, the board determined to hold this year's Annual General Meeting virtually. Although we are not able to meet in person, I am pleased that we can come together virtually to update you on your company, conduct formal business, listen to any comments you may have and answer your questions.

It is now 11:00am, the appointed time for holding Adairs' 2020 Annual General Meeting. I am advised that a quorum is present, and I therefore have pleasure in declaring this meeting open. Thank you for attending.

Details about how shareholders can participate have been set out in the Notice of Meeting and Online Virtual AGM Guide which has been published on our investor relations website. Both documents are also available to view and download at the bottom of your screen. I will go through the technical and procedural matters for the AGM shortly.

Before proceeding with the formal business of the Meeting, I would like to advise that I am joined today by all of my fellow Directors and also all of the senior leadership team including Ashley Gardner, our Chief Financial Officer.

They, like you, are participating virtually.

From the Board we have in attendance:

- 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.

We also have 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.

The agenda for today's meeting is that following my introductory remarks and review of the Company's financial performance during FY20, Mark Ronan, the Managing Director & CEO, will present his report which will include an update on year to date trading for FY21 as well as a presentation on the drivers of our future growth.

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.

I'll now talk through the procedural matters for this meeting.

**Shareholder questions**

We are only taking questions from shareholders today, or their representatives.

The "Ask a Question" button is located at the top of your screen. You can submit questions at any time, you do not need to wait until the relevant item of business. We encourage you to submit your questions as soon as possible.

We will then seek to address your questions during the discussion on the appropriate item of business. We will endeavour to answer as many questions from shareholders as we can.

Questions sent via the online meeting platform will be moderated to avoid repetition, and if questions are particularly lengthy we may need to summarise them in the interests of time. I ask that all questions be directed to me as Chairman.

**Voting procedures**

Voting today will be conducted by way of a poll on all items of business. In order to provide you with enough time to vote, polling on all items is open now.

To vote you simply click on the "Get a Voting Card" button at the top of your screen. This will bring up the list of resolutions and present you with voting options.

Voting for all resolutions will remain open until 5 minutes after the meeting to provide eligible attending shareholders with sufficient time to cast their vote. The final outcome of each resolution will be released to the ASX and posted on our website later today once voting has closed and numbers tallied.

Any appointed proxy who has been given discretion on how to vote should vote in the same manner. Any appointed proxy that has been directed to vote in a certain manner and has no discretionary votes to cast, does not need to vote as those votes will automatically be counted in accordance with those directions.

If you experience any difficulties with the online platform, the help line number is displayed at the top of your screen.

As I wrote in the Annual Report, FY20 was something of a watershed year for Adairs. The strength and resilience of our business at an operational and financial level was tested and proven through one of the most challenging retailing periods on record.

**REVIEW OF THE COVID-19 TIMELINE AND OUR RESPONSES**

I would like to remind shareholders of the timeline of events over the second half of FY20. The context in which decisions were made and the impact that COVID-19 had on our business are important in reviewing our FY20 result.

On **21 February 2020** we released our 1H FY20 results. These showed a commendable performance with total sales up 8.6% to $178.9m and LFL sales up 6.9% compared to the prior corresponding period. Notably on-line sales were up 31.6%, to comprise 18% of total sales. The acquisition of Mocka had been completed, giving the company access to a profitable pure-play online retailer in a logical adjacency. We also reported that the new DC strategy had been confirmed, with a decision to use DHL as operator, and an expectation that it would commence operation in July 2021. We declared an intention to pay a 7.0 cent per share fully franked interim dividend. Internally, we felt the business was performing well, and we were confident about the future. Almost all of our internal key performance indicators were being satisfied or exceeded. We issued guidance that FY20 Sales would be in the range of $385-400m and EBIT $48-52m (excluding Mocka transaction costs and AASB16 adjustments).

On **19 March 2020** we released a statement to the ASX updating on the rapidly emerging impact of COVID-19 on consumer sentiment and business outlook. We withdrew our FY20 sales and earnings guidance, cancelled the previously announced interim dividend, and advised we were taking action to maintain a strong liquidity position to enable the company to endure the expected adverse impact of COVID-19. All stores and on-line channels continued to trade, but the world had changed for the worse and the outlook was most uncertain.

On **27 March 2020** we announced to the ASX that all Australian stores would close from 29 March 2020 and that all New Zealand stores and Mocka NZ had been required to close from 24 March 2020. These actions were driven by health and safety concerns for both our team and customers, and coincided with the Australian and New Zealand governments request for everyone to stay at home, other than for essential needs. All store staff, and the majority of our head office customer support team were stood down.

The on-line channels of Adairs and Mocka Australia continued to trade. Directors and all team members that were necessary to sustain the continuing operations volunteered to take significant remuneration and hours of employment reductions. The focus was on preservation of cash and liquidity, and operation of our on-line channels. Rent relief was sought from landlords and many inventory orders were either deferred or cancelled.

On **30 March 2020** the Australian government announced the JobKeeper program, and we were able to satisfy the program's eligibility conditions which provided wage support for the majority of our stood down team. Under the conditions of the JobKeeper program we would receive these payments through to the end of September 2020. This was a welcome initiative. Together with the NZ Wage Subsidy payments Adairs received $11.3m of government support in the period to 30 June 2020.

On **4 May 2020** we released a trading update to the ASX, and our plan for a staged re-opening of stores. Frankly, on-line sales had exploded. During the five-week store closure period from 29 March-3 May 2020 Adairs online sales were up 221% on the prior corresponding period, and Mocka Australia was up 151%. Notably ~30% of this online growth was from customers that were not Linen Lovers loyalty program members or had not previously shopped on-line at Adairs. As importantly, gross margins were also strong. We announced the staged re-opening of stores from 7 May, commencing with our larger format Homemaker stores. New in-store safety protocols were also implemented which included hand sanitisers, customer number limits, contactless payments and social distancing measures.

On **19 June 2020** we released a trading update for the period to 14 June 2020 and issued group sales guidance for FY20. This confirmed the strong growth of both Adairs and Mocka on-line channels, particularly in the 2H of FY20, and established a group sales guidance for FY20 of $385-390m. A remarkable achievement! Despite the closure of all Australian and New Zealand stores for between five and eight weeks the team now expected group sales for the full year to be back within the guidance range issued pre-COVID-19 in February 2020. On-line was the saviour, but the dedication and resilience of the store team to stand down, and then re-open and perform strongly was wonderful.

On **10 August 2020** we released to the ASX our unaudited FY20 results. Headlines were group sales of $388.9m, group on-line sales of $124.2m (now 31.9% of group sales) and underlying group EBIT (pre Mocka transaction costs and AASB16 adjustments) of $60.7m. An outstanding result to comprehensively exceed the pre-COVID-19 guidance of $48-52m issued in February 2020. Net debt at 28 June 2020 was only $1m, notwithstanding incremental borrowings of $48m to fund the Mocka acquisition in December 2019. Mocka's performance is well ahead of our expectations, with sales and EBIT growth accelerating.

It should come as no surprise when you read the Remuneration Report contained in our 2020 Annual Report that the team received significant short-term incentives for the period. In striking the level of these payouts any benefit received by the company from JobKeeper or NZ Wage Subsidy and the acquisition of Mocka was excluded from performance considerations.

A Final Dividend of 11.0 cents per share fully franked was declared and paid.

On 4 August the Victorian government made orders requiring closure of 43 stores in the Greater Melbourne area. They remain closed however we have been trialling a "Call and Collect" offer from these stores which has seen a material recovery of store sales which Mark will talk to.

**PATH FORWARD**

We have been fortunate. While COVID-19 has caused significant damage to many industries - some of which may take years to fully recover - it is clear that many people continued to shop online and that the Home category was front of mind in their shopping. As a leader in this category, with one of the best online platforms of any retailer, we benefitted significantly from this trend.

We expect these benefits will be long lasting as many of our store-only customers were introduced to our online platform for the first time, and of course we also saw significant numbers of new customers shop with us for the first time.

In effect, COVID-19 has accelerated growth in two key areas of our business that were already a strategic focus for us – growth in online penetration, and the acquisition of new customers. Mark will talk about the significance of both in his address.

**DIVIDEND POLICY**

In light of the lower dividend payout ratio in FY20 a number of shareholders have asked if our dividend policy has changed.

I can confirm that our dividend policy to pay out 65-80% of our net profit after tax each year has not changed, and I can also reassure you that recent changes in accounting standards have very little impact on our reported NPAT so will not impact the levels of dividends going forward.

**STRATEGIC PROJECTS FROM FY20**

In December we announced the acquisition of Mocka, a highly efficient, vertically integrated and profitable pureplay online retailer of home and living products operating in Australia and New Zealand. Mocka has performed well since acquisition and during COVID-19 with FY20 Sales and EBIT finishing above expectations despite low inventory levels during Q4. Mark will provide a further update on FY21 trading shortly.

We also announced the appointment of DHL as our 3PL partner to operate a new purpose-built National Distribution Centre (NDC) in Melbourne. The NDC is currently being built and is planned to be fully operational by July 2021. We expect this project to deliver $3.5m in cost savings in FY22.

Finally, as has already been communicated to shareholders, this will be my last AGM as a Director as I have decided to retire from the Board after having served five years as its Non-executive Chairman.

**DEVELOPMENT OF ADAIRS AS A PROFITABLE OMNI-CHANNEL RETAILER**

I am very proud of what we have achieved in that time and while it is difficult to pick any single highlight of my term I am particularly proud of the success we have been able to achieve in developing our online channel from a promising but fledgling business that delivered approximately $12m of sales in 2015 to one that produced sales of over $120 million in FY20 across Adairs and Mocka.

Without wanting to take anything away from our stores, which remain a critical and highly profitable element of our omni-channel strategy, it was our online business which allowed us to not just survive but flourish in FY20, a year in which COVID-19 saw our entire store network close for between 5 and 8 weeks in the second half.

The world is full of online retailers, but many of them find achieving a strong earnings margin to be a challenge and therein lies our real strength. Being vertically integrated means we have an exclusive product offering and full control over our supply chain and pricing. It also allows us to be agile and responsive to market changes. These characteristics are not widely shared amongst our competitors.

The direct contribution from our online channel – which is after deducting all direct operating costs such as platform licences and content creation, bank fees, distribution costs, warehouse pick and pack, customer service wages and online marketing (other than in-store marketing) – has grown from $2m in FY15 to more than $42m in FY20 (including Mocka) and has continued to power on in FY21.

The slides show the quarter by quarter growth, on a last twelve months basis, in on-line sales, on-line channel contribution, on-line channel margin, and on-line sales as a percentage of total group sales. This data is unaudited but prepared from Adairs management accounts. I have presented it on a quarterly basis as it shows the relentless rise in the acceptance of Adairs omni-channel strategy. It is not the company's intention to provide such quarterly data on a regular basis.

The magnitude of this achievement by the Adairs team is laudable. In the 12 months to 30 Sep 2020 Group On-line Sales have grown by 252% and On-line Channel Contribution for the same period has grown by 342%. Group On-Line Sales for the 12 months to 30 Sep 2020 were 36.7% of total Group Sales compared to 17.5% for the 12 months ended 30 Sep 2019.

As Mark will explain, we have a very large addressable market opportunity in Home and Home furnishings and there remains considerable scope for both Adairs and Mocka to continue to grow their share of this market as we have done successfully and consistently over recent years.

I remain confident that Adairs has the right strategies, team and product offering to continue to deliver growing returns for the benefit of all shareholders for many years to come.

In addition to my colleagues on the Board I would like to thank you, our shareholders, for the support you have provided me.

I will now hand over to Mark Ronan, the Managing Director & CEO, to present his report.

Thank you.

## CEO PRESENTATION – MARK RONAN

Thank you Michael

The second half of 2020 will be remembered as a most challenging period with COVID-19 impacting every sector of the economy and forcing businesses to adapt to an ever changing and evolving environment.

The results achieved by Adairs and Mocka through this period highlight both the resilience of our business model, the hard work of the teams and the strength of our brands.

Group sales finished 12.9% higher to a record $389 million despite COVID-19 forcing the closure of all stores in late March with re-openings occurring progressively through May.

While the store closures resulted in total store sales finishing down for the year, like for like store sales, after adjusting for the closure period, were up almost 4%.

The decline in store sales was more than offset by a 110% increase in group online sales, highlighting how our ongoing omni channel strategy has enabled us to adapt to the changing circumstances.

The improved sales result was accompanied by an improved final gross margin rate for Adairs which finished at 61.4% versus 59.1% in the year prior. This was a result of the continuation of the sourcing work undertaken by the team in the first half, the deliberate decision to reduce the length and depth of Adairs promotions, and supported by the strong customer sentiment towards their homes over the last quarter.

Cost ratios were affected by the store closure period, with significant store cost reductions in April and May offset partially by higher online variable costs and increased investment in digital advertising.

This culminated in the Group delivering a record underlying EBIT of $60.7 million and an NPAT of $35.3 million, which equates to earnings of 21.0 cents per share, 17.3% higher than FY19.

Our balance sheet finished in good shape as our strong cashflow meant that despite borrowing $48 million to acquire Mocka in December we closed the year with net debt of approximately $1 million and comfortably complied with all of our banking covenants.

I wanted to take a moment today, to acknowledge and thank our suppliers, landlords and business partners who worked closely with us to share the impact of COVID-19. I would also like to acknowledge the Australian and New Zealand Governments whose employment support packages enabled us to maintain the connection with and continue to pay our team members whilst they were stood down.

With the 2020 financial year behind us we find ourselves operating in a continually changing environment. However, 2020 highlighted the strength of our brands and the opportunity available for Adairs as we continue to focus on executing our underlying strategies. The addressable market in Australia is large and we are a very small player in that market today. As customer preferences change and evolve our omni channel business model provides us with the ability to address the entire market and we have significant opportunities for growth across both channels.

Whilst online continues to see new entrants each year, generally focussing on a specific niche or price point, we believe there will continue to be consolidation in the physical retail space. Our strategies are focussed on enhancing our omni channel model, bringing our stores and digital channels closer together and combing this with our product category expansion to enable us to win new customers and increase share of spend from our existing customers. We have successfully achieved this over the past five years and have developed a platform that with additional investment will allow us to continue grow into the future.

As we consider our future we have highlighted five key drivers of our future growth:

1. Our proven and resilient business model
2. Our profitable store formats
3. Our digital transformation
4. Mocka; and
5. Our omni-channel supply chain strategy

First, our business model.

The strong brands that we own, our vertical supply chain philosophy and our direct to consumer store and digital channels, allows us to develop and control the expansion of our product offering and customer base. This enables us to be more responsive to changing customer needs through the delivery of exclusive on trend product at higher margins.

Further, our strong brands combined with our large and loyal customer base enables a lower cost of customer acquisition and provides significant opportunity to enhance and build upon our relationships with our customers, to deliver further incremental returns.

Whilst omni channel is important, it is the combination of omni channel retail with loyalty that truly drives growth and separates us from other retailers. Adairs is focussed on continuing to grow its market share and the best way to do this is to both grow our customer base and increase our share of spend from our existing customers. Linen Lovers is the program through which we provide value to our members allowing us to achieve this.

The Linen Lover program today accounts for more than 75% of Adairs sales with members spending 1.5x more per visit than non-members. It is important to note that members pay for their membership which implies an ongoing commitment to shop with Adairs again and highlights the benefit our customers see in the program.

Further the Linen Lover program allows Adairs the opportunity to enhance our knowledge of the customer and build a more personalised relationship. This was a key asset in bringing customers back into stores through May, as we could individually advise customers when their preferred store was going to re-open. As digital marketing and communication becomes the primary way we communicate with our customers, the store closure period also provided us with the opportunity to introduce a lot of our store only customers to our website and shopping online with Adairs for the first time. Growing our omni channel shoppers is a focus for the business as they historically shop more often and spend more with each purchase than those that only engage via one channel.

Our proven and resilient business model is supported by our store network.

We firmly believe that the Home category is better with stores. They provide our customers with the ability to engage with the product and the team in an environment that allows them to be inspired to create a look that is right for them. Whilst online should provide you with the ability to easily find what you want, it is harder to recreate the experience of discovery that exists as you walk through a physical store interacting with the product. Our in-store team enhance this experience through their product knowledge and ability to help customers achieve their vision, providing the opportunity for improved customer conversion, cross selling and building loyalty to the brand.

All of our stores are profitable and our store formats deliver strong contribution margins. Whilst customer preferences and habits are changing, we have deliberately created a flexible store portfolio with 72% of store leases expiring within 3 years, with longer leases attributable to our larger more profitable stores. This allows us to strategically manage our store portfolio through opening new stores, upsizing existing stores, obtaining more favourable terms on renewals or closing stores that simply do not meet our return hurdles.

We continue to focus on creating a portfolio of larger stores that allow us to showcase more products and categories, improve the customer experience and drive increased store contribution.

Our stores are well supported by our online channel. This was highlighted throughout our COVID-19 experience and has seen us accelerate our digital transformation to further develop our digital capabilities to build a complete omni channel model. This will see us invest in enhancing our digital platform and team to deliver an improved customer experience, driving customer acquisition and increased customer conversion.

We are actively exploring and trialling a number of new technologies across our business including:

- instore devices to showcase range
- customer traffic measurement and analytics, both in store and online
- "call and collect" and "call and same-day delivery" services
- online chat
- management systems which provide a single view of inventory across the business; and
- augmented reality

Recently we have been trialling both a "call and collect" and a "call and same-day delivery" service from a range of stores across Victoria, New South Wales and Queensland. We have seen a rapid adoption of these services and in the case of Greater Melbourne it allowed us to recover a good portion of our store sales.

We know that technology plays a critical role in omni channel retailing. We will continue to test and trial different technologies to ensure that any significant investment will deliver an enhanced customer experience.

As we have often explained, omni channel customers are more valuable than customers who only shop one channel and so investing in the rapidly evolving digital channel to support our omni channel model is critical to our business.

The addition of Mocka to the group increases our exposure to the fast-growing online segment of the market with the significant benefits of vertical integration. Based on Mocka achieving the same penetration in Australia as it has in New Zealand, there is the potential for significant growth as typically, an Australian business is 5-6 times the size of a NZ business simply based on population size.

Mocka provides the group with greater exposure to the furniture segment and provides the opportunity to reach a different customer through "design led, value for money" differentiated furniture. Mocka's passion for design-centric in-house product development allows us to control the vertical supply chain and importantly the pricing and promotion of our products in market which delivers stronger gross margins and earnings.

Excitingly Mocka has been able to take advantage of the opportunity presented by COVID-19 to accelerate its brand recognition and growth rate in Australia.

We will invest in product category expansion, customer acquisition and have moved to fast-track infrastructure investment including warehouse facilities to support this accelerating growth.

And finally, the strategic review of our supply chain completed in FY20 saw us appoint DHL as our 3PL partner to build and operate a new, purpose-built National Distribution Centre for Adairs. Partnering with DHL provides us access to a global leader in the design, implementation and operation of flexible warehousing and distribution solutions to support our omni channel approach. With the National Distribution Centre on track we will continue to invest in our omni supply chain strategy through a number of initiatives that will enhance our inventory productivity and customer experience.

If I move to our trading update for the first 17 weeks of FY21 it remains a good news story.

As we announced to the ASX this morning, Adairs online is up 134% while stores sales are up 17% on a like-for-like basis, after adjusting for the Melbourne store closures. Mocka has also continued to grow strongly, being up 48% over the same period last year.

Online sales represent 41% of total sales (with Adairs online at 32% and Mocka at 9%). This compares to 17% for the same period last year, noting that we did not own Mocka at that time.

Our gross margin % has remained elevated over this period and, as we did last year, our focus remains on maximizing gross margin dollars.

Inventory levels were well below ideal levels throughout this period, due to the actions taken to manage the inventory and liquidity position in the second half of FY20 and the stronger than anticipated sales results since stores re-opened in May 2020. Pleasingly, these are now returning to levels more in line with last year and will be in a good position to support the key Christmas trading period.

Our costs continue to be well controlled. The government wage subsidies concluded at the end of September, with Adairs putting in place a program to continue to support team members stood down due to government mandated store closures.

Due to the closure of 2 small stores during the first quarter we anticipate opening net 2 - 4 new stores and upsizing a further 5 - 7 stores through FY21. This will be supported by ongoing investment in our digital capabilities.

With the ongoing uncertainty created by COVID-19, two thirds of the year remaining, including several key sale periods, the Board are not able to provide FY21 guidance and investors are cautioned against projecting this growth in sales and margin across the balance of the year.

To finish I would like to offer thanks to a number of people.

I would like to start by thanking the Adairs and Mocka teams for their hard work and dedication across the year. Our team are passionate about our business and this has never been more evident than in FY20. During the period stores were closed and websites unable to trade the majority of our team were asked to stand down, with a smaller group tasked with managing the online businesses. They did this with unwavering professionalism and understanding, ensuring that we successfully navigated the closure period and emerged well placed to manage and capitalise on the new and evolving retail environment.

Shareholders should be comforted and pleased that in Adairs and Mocka they have teams who are committed to their customers and delivering ongoing profitable growth.

Finally, I would like to thank Michael Butler for his wonderful service to Adairs as our Chairman over the last 5 years. Since joining the Board as its first Independent Non-Executive Chairman in 2015, Michael has overseen the company's listing on the ASX, a successful CEO transition, the acquisition of Mocka and most recently the navigation of the business through the many challenges posed by the COVID-19 pandemic. I know I speak for everyone in saying we will miss his counsel and company.

The search for a new Chair is well advanced and the Board is hopeful of being able to make an announcement before long. In the meantime, Trent Peterson has kindly agreed to act as interim Chair for the intervening period so we remain in good hands.

That concludes my report. If you could kindly hold any questions you have, for now as there will be an opportunity to ask questions a little later on.

I will now hand back to Michael Butler for the formal part of the meeting.

Thank you.

**ENDS**

For further information please contact:

Jamie Adamson
Head of Investor Relations
Adairs Limited
P: +61 (0) 437 449 935
E: jadamson@adairs.com.au