

# ASA Investor Conference 2020 “Investing in the future of retailing”

Mark Ronan, CEO & MD  
Adairs Limited





## 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.



# Agenda

- 1** Introduction to Adairs
- 2** What do the retail futurists predict?
- 3** The impact of COVID-19 on the future of retail
- 4** Retailing challenges in the next decade
- 5** How Adairs is positioning itself for this future
- 6** Questions

## About Adairs Limited (ASX: ADH)

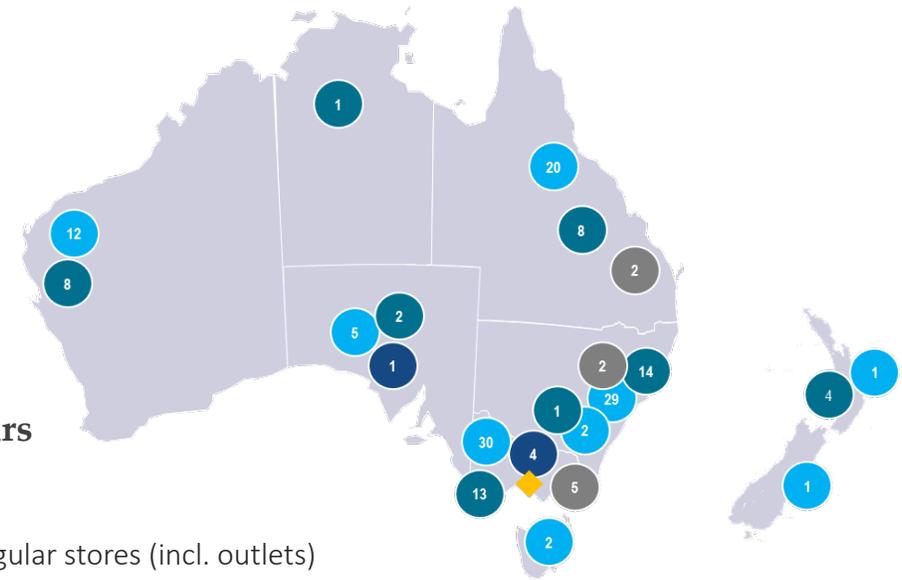
- ▶ Australia's largest omni channel specialty retailer of home furnishings and home decoration products
- ▶ Own and operate two businesses in the category, Adairs and Mocka
  - both are vertically integrated, design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand
  - Each operates completely independently of the other

## mocka

- ▶ Pure-play online home and living products designer and retailer
- ▶ Sells its own exclusive, well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories



- ▶ Specialty retailer of home furnishings with a national footprint of stores across a number of formats and a large and rapidly growing online channel
- ▶ Strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service



**Total Adairs stores: 167**

- 102 Regular stores (incl. outlets)
- 51 Homemaker stores
- 9 Adairs Kids
- ◆ 5 Urban Home Republic

## Digital commerce will lead to a redesign of storefronts and service delivery

### Store front

- ▶ Retailers will be able to send alerts to notify of new pricing, products or experiences to a consumer's individual wearable or voice platform
- ▶ Screens in the shopfront/store will show you wearing or using their product

### Entry and Exit

- ▶ Facial scanning will identify customers upon entry to the retail store, enabling retailers to provide a more tailored experience
- ▶ Payment for the product or experiences will be automatically made upon exit from the retail store (as will inventory replenishment orders)

### In-store experience

- ▶ Shopping will be more contextual, allowing consumers to try on clothes or see new furniture in a virtual incarnation of the final environment
- ▶ Experiential centres will be built to enable consumers to touch, feel and experience products that require more consideration
- ▶ The consumer's virtual personal stylist will help consumers make choices in the context of what they already own or what might complete a desired look



Retail e-commerce is growing steadily but not all categories sell easily online and, while COVID has helped, the next stage of evolution is likely to require substantial investment

### Some categories sell better online than others

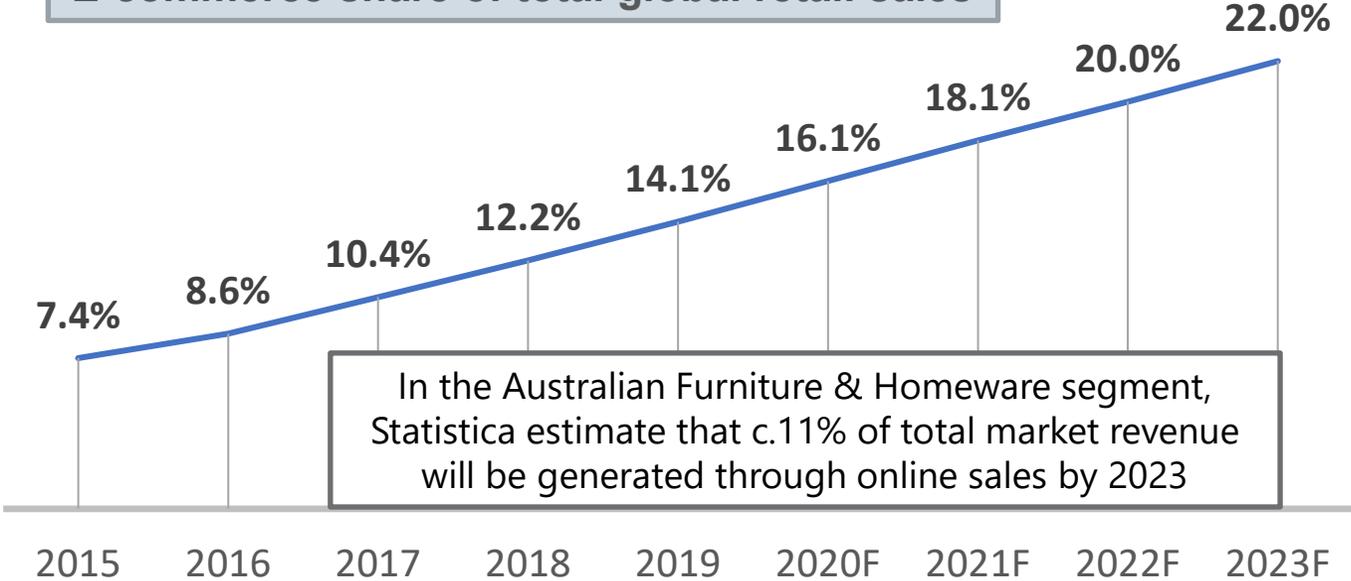
#### More likely to transact online

- Commodity items in general
  - ▶ Tickets (Airlines, events, etc)
  - ▶ Books/Music
  - ▶ Electronics
  - ▶ Apparel / Shoes

#### Less likely to transact online

- Anything you like to see, hold, smell, or taste before you buy!
  - ▶ Cars
  - ▶ Real estate
  - ▶ Home category items
  - ▶ Luxury items / Jewellery

E-commerce share of total global retail sales



Source: Statista, August 2020

### The “less likely” categories are all achievable, but complex

Improving consumer confidence to buy these categories online requires

- ▶ New platforms
- ▶ New shipping capabilities
- ▶ New systems
- ▶ New technologies

**and STORES!**

## Omni-channel

*“The future was always going to be omni-channel. Pundits have been prematurely predicting this for many years, but it is finally happening.*

*There is a strange belief in certain circles that the future will be e-commerce only and that brick and mortar stores have no value.*

*This is strange because the world’s largest, most sophisticated e-commerce companies such as Amazon, Alibaba, JD.com and Wayfair are all now opening stores. Lots of stores.”*

**Gavin S.Baker**  
**Managing Partner and CIO at Atreides Management, LP**

## COVID-19

*“I believe the biggest long-term beneficiaries of COVID will prove to be category leading brick and mortar retailers.*

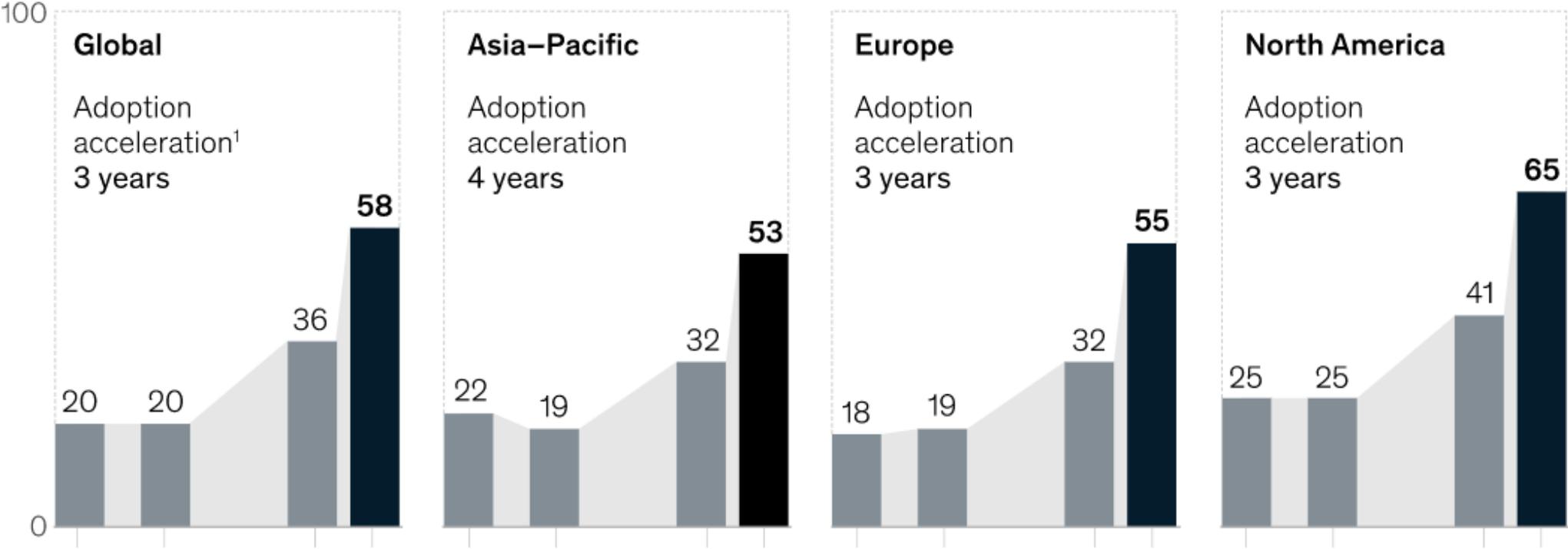
*Many of the perceived COVID winners such as e-commerce, videogame and streaming media companies have simply been pulled a few years forward into a future that was inevitable.*

*Their destiny did not change, whereas the future for category leading “brick and mortar” retailers has changed dramatically as a result of COVID, more so than for any other business of which I can think.”*

**Gavin S.Baker**  
**Managing Partner and CIO at Atreides Management, LP**

According to a recent McKinsey Global Survey, COVID-19 accelerated the adoption of B2C online interactions by 3-4 years and most of those surveyed expect this new level to stick

**Average share of customer interactions that are digital, %** ■ Precrisis    ■ COVID-19 crisis



1. Years ahead of the average rate of adoption in the 2017-2019 period

Source: McKinsey & Company The online survey was in the field from July 7 to July 31, 2020, and garnered responses from 899 C-level executives and senior managers representing the full range of regions, industries, company sizes, and functional specialties.

## Challenge #1 – Customer demographics - the rise of Millennials and Gen Z \*

### Baby boomers (traditional consumers) are in decline

- ▶ By 2025, Millennials will represent c.75% of the Australian workforce

### Millennials are different!

- ▶ Many are disillusioned
- ▶ Prefer to spend money on experiences over products
- ▶ They are infinitely more discerning and informed customers
- ▶ They are sceptical of business motives and trustworthiness
- ▶ They will prioritise and support companies that align with their values
- ▶ They are highly technology literate

### Implications for retailers

- ▶ We are now selling both a product AND an experience
- ▶ Loyalty is harder to come by
  - Need to deliver more than product and price
  - Brands need to have a bigger purpose and sense of community
- ▶ For retailers the implications go beyond customers
  - Millennials have the same expectations of their employer

There is an opportunity to create customer loyalty by thinking beyond the basics of retail and mass consumerism.

\* Millennials are those born 1980-1994 (currently 26-40 years old) and Gen Z born 1995-2015 (5-25 years old)

Challenge #2 – Technology continues to advance at unparalleled speed and the technology landscape for retailers is complex

## Near term (Now to 5 years)

New technologies (which will ultimately need integration) include:

- ▶ **Augmented reality**
  - Consumers can use their smartphones to bring product to life and see what it might look like in their homes, on their tables or walls
  - Can provide in-store navigation and product information
  - Contactless trialing of products (particularly clothing)
- ▶ **The internet of things and connected devices**
  - e.g. Amazon Go in the US (Enter the store with your smartphone, pick items off shelves and just walk out – no contact checkout/billing)
- ▶ **Sensor-driven supply chain and packaging innovations**
  - Provides retailers with end to end real-time information about their inventory at an individual item level from suppliers through to customers
- ▶ **Delivery / fulfilment solutions**

## Longer term (5-10 years)

- ▶ **Virtual reality**
  - Fully immersive virtual experience (e.g. visit a virtual store from your armchair and browse a personalized product display curated just for you)
- ▶ **Artificial Intelligence / Big data**
  - Likely to be the most profound technology to change every aspect of retail
  - Will allow a retailer to anticipate a customer's needs even before they personally interact with the brand

The customer experience should drive a retailer's technology decisions, not the other way around

How Adairs is positioning  
itself for this future

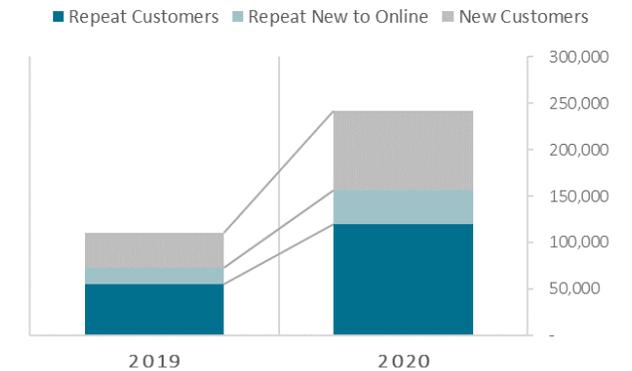


## COVID-19 has accelerated Adairs online penetration and growth rate with long term benefit to be realised as new customers return and shop both our channels.

- ▶ The combination of stores and online delivered FY20 sales growth despite the impact of COVID-19
- ▶ As more customers become “omni” in their shopping preferences we expect to win online market share as seen in Q4.
  - Significant increase in new online customers +124%
  - 15% of sales were to existing customers shopping online with Adairs for the first time
  - Over 30% of sales during the store closure period were to new customers
  - Material upside remains given 63% of our Linen Lover members have not shopped Adairs online
- ▶ Engaged Linen Lover members drove store sales upon their re-opening
  - Communicate directly with individual members as their preferred store re-opened
  - Repeat customers in store up 13% in June
- ▶ Well placed for trend to continue as COVID-19 accelerates customers shift to omni-channel yet highlights importance of stores and online

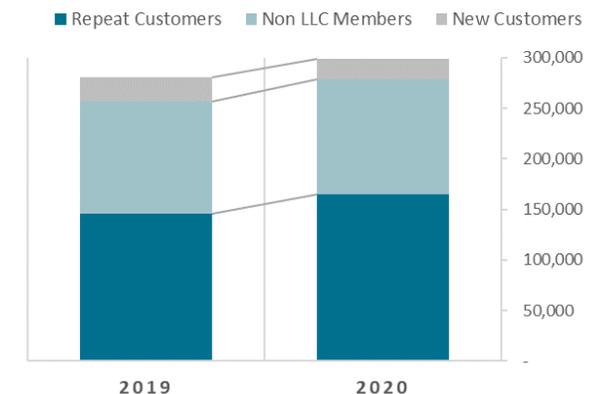
### 1 *Strong online customer growth*

ONLINE CUSTOMERS - Q4



### 2 *Some Customers love to shop in store*

IN-STORE CUSTOMERS - JUNE





## “Home” is better with Stores

### Inspiration and discovery

- ▶ Curating a home is a process of discovery, inspiration and change
  - best done when items can be readily viewed alongside each other
- ▶ Customers often don't know exactly what it is they are after in terms of look
  - searching the web can overwhelm
  - curation and co-ordination are features of our channels

### Customer service

- ▶ An experienced, customer-friendly store team can
  - create / inspire customer's vision
  - deliver a personalised and tailored experience
  - help cross-sell and add value
  - increase sales conversion and loyalty
- ▶ Majority of Linen Lover sign-ups and renewals occur in-store
- ▶ Stores provide additional customer service options

### It's the real thing

- ▶ Being able to touch and feel a product is very important to many Home customers
  - allows them to better assess quality and visualize how the product will look in their home
  - Stores bring products and looks “to life”
  - Customers can browse instore and shop online, and vice versa

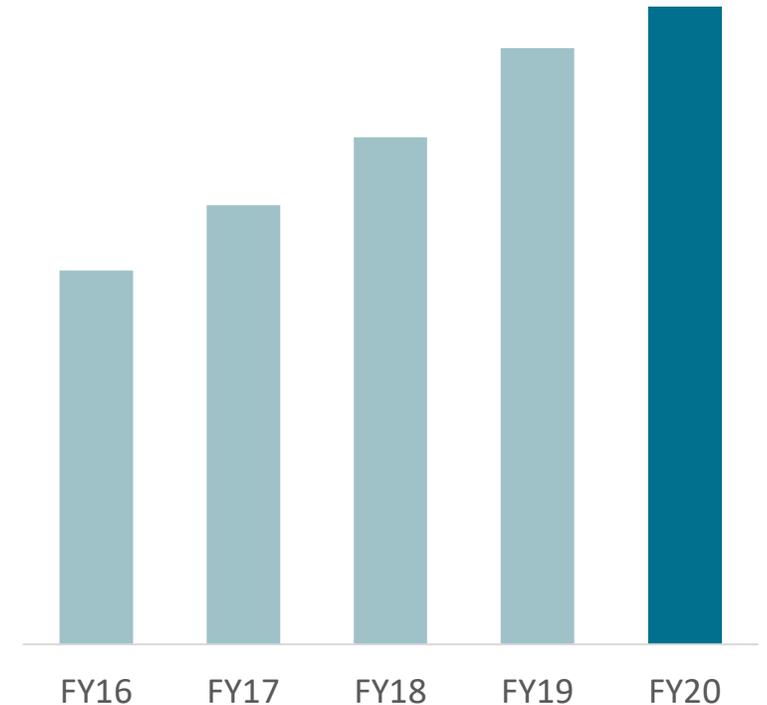
Our Linen Lovers Club loyalty program is a fundamental growth platform - accounting for 75% of all sales (ex Mocka) with 800k+ highly engaged members and membership growing at a 14% (3-year CAGR)

- ▶ Launched in 1995, Linen Lovers is one of Australia’s oldest loyalty programs and a key driver of Adairs’ success
- ▶ In contrast to most loyalty programs, Linen Lovers pay for their membership:
  - enhances member loyalty with a signalled intent to shop at Adairs again
  - enhances our customer knowledge
  - supports cost of the program
- ▶ Avg transaction value for a Linen Lovers member is 1.5x higher than a non-member

### Loyalty Value Proposition

- ✓ \$20 membership fee for 24 months membership
- ✓ \$20 voucher (min spend \$50) on next purchase
- ✓ 10% off full price / 5% off sale
- ✓ Exclusive Linen Lover offers and bi-annual shopping events
- ✓ Free online delivery and extended return terms

**Active Linen Lover members  
(year end balance)**



## 1 Omni is a true “customer-first” model where retail is driven by customer preferences

### Channel Optimisation

- ▶ We want to empower our customers to shop any way, anywhere, any time they choose
- ▶ Adairs values all channels equally

### Improved Customer Experience

- ▶ We gain a complete understanding of each customer
- ▶ Allows personalisation of the customer relationship

### Improved Loyalty

- ▶ Personalisation builds a relationship, which drives loyalty
- ▶ Channel freedom (ease of shopping) also drives loyalty

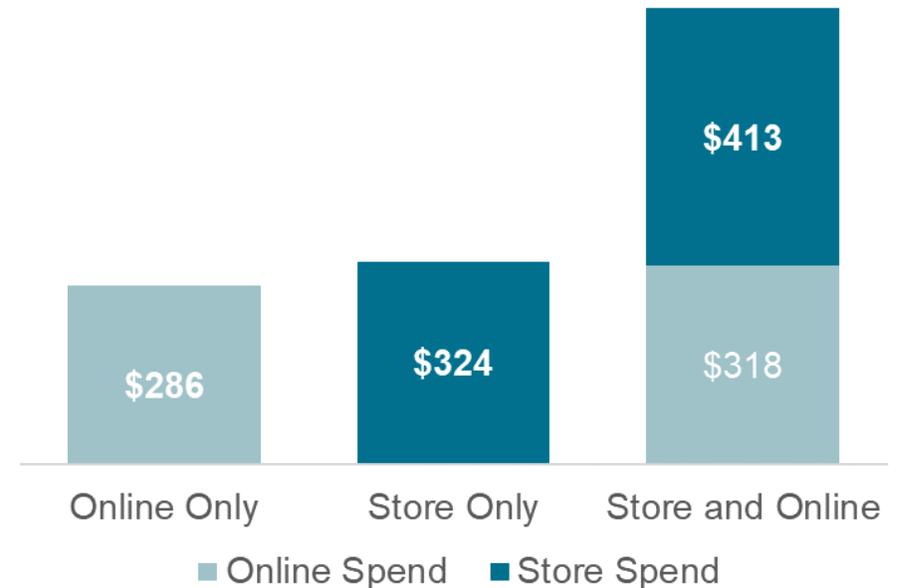
### Customer Diversification

- ▶ Different channels create different leads and opportunities
- ▶ Not all customers are omni but we seek to (and can) capture them all

## 2 Customers that engage with Adairs on multiple channels: ✓ make purchases more often; and ✓ spend more with each purchase than those who only engage via one channel



Active Member Annual Spend (\$) in FY20



Our current business model is proven, resilient and offers material scope to grow

## 1 Proven and resilient business model

### Vertical supply chain

- ▶ Greater control (range/quality/cost/timing)
- ▶ More agile and responsive to changing markets
- ▶ Significantly higher gross margins / profitability

### Strong brands (that we own and control)

- ▶ Lower cost of customer acquisition and retention
- ▶ Brand and product exclusivity
- ▶ Higher margins

### Large and loyal customer base

- ▶ >800k paid up and highly engaged Linen Lover members

### High exposure to online growth

- ▶ ~35% of group sales are now online or omni (after annualising Mocka)



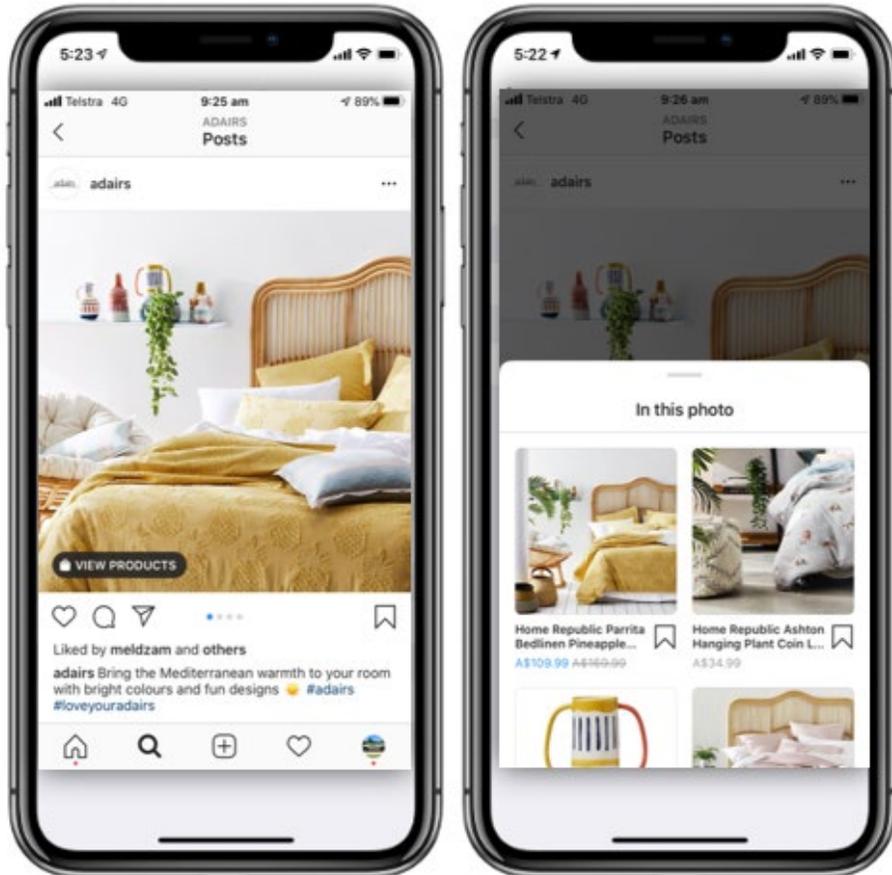


Our stores are key to being omni and retain significant growth potential

## 2 Profitable store formats

- ▶ All Stores are profitable with relatively short lease terms
- ▶ Larger stores are more profitable
- ▶ Significant upsizing opportunities remain within the portfolio
  - showcase more products / categories
  - drives increased store contribution
- ▶ Profitable new store opportunities remain
- ▶ Provide a valued and trusted engagement point with our customers

Our digital strategy was the engine room for growth in FY20 and this will continue well into the future



### 3 Digital transformation

#### Development of our digital strategy & channel

- ▶ Accelerating our digital transformation through additional investment in customer acquisition, customer experience, platform and team
- ▶ We are actively exploring and selectively trialling new technology
  - augmented reality
  - instore devices to showcase range
  - single view of inventory
  - customer traffic analytics in store and online
  - online chat
  - call and collect services and express delivery options
- ▶ Adairs/Mocka cross-learning, benefitting both
- ▶ Omni customers are the most valuable so getting digital right is critical

Mocka is a highly complementary and profitable pure play online retailer with significant market opportunities



#### 4 Mocka

- ▶ Australian brand awareness is growing rapidly
- ▶ Cross-promotion opportunities being trialled
- ▶ Expansion of Australian warehouse facilities being fast-tracked to support growth
- ▶ Low market share in a very large category
- ▶ Product category expansion
- ▶ Capitalising on increased search activity during COVID-19

COVID-19 has accelerated Mocka's brand recognition and growth rate, particularly in Australia

mocka



Our new NDC will assist in enabling our digital strategy and delivering profitable growth for the next decade

## 5 Omni Supply Chain Strategy

### New National Distribution Centre

- ▶ DHL to operate – we will focus on customers and product
- ▶ Faster and more efficient deliveries – direct or via stores
- ▶ c.\$3.5m cost savings p.a. from FY22

### Investing in:

- ▶ Single view of inventory
- ▶ Digital integration allowing customers to shop how they choose
- ▶ Enhanced delivery options

**THANK YOU.  
ANY QUESTIONS?**

