adairs

Adairs Limited
ABN 50 147 375 451
2 International Court,
Scoresby, Victoria 3179
Phone: 1800 990 475
Email: info@adairs.com.au

APPENDIX 4D

Half Year Report
For the 26 week period ended 27 December 2020

This information should be read in conjunction with the interim condensed financial report for the half year ended 27 December 2020.

1. Details of the reporting period and the prior corresponding period

Current Period: 29 June 2020 to 27 December 2020 (26 weeks)

Prior corresponding period: 1 July 2019 to 29 December 2019 (26 weeks)

2. Results for announcement to the market

Comparison to previous corresponding period	Increase/ (Decrease)	Change %	$'000
Revenue from continuing operations	Increase	34.8%	242,990
Profit after tax from continuing operations attributable to members	Increase	233.4%	43,865
Net profit attributable to members	Increase	233.4%	43,865

Dividends	Amount per security	Franked amount per security
2020 Final Dividend – Ordinary (paid)	11.0 cents	11.0 cents
Interim Dividend – Ordinary (resolved, not yet provided for at 27 December 2020)	13.0 cents	13.0 cents

Record date for determining entitlements to the dividend	Ordinary Shares	10th March 2021
Payment date of interim dividend	Ordinary Shares	25th March 2021

3. Net tangible asset backing per ordinary security

	27 December 2020	29 December 2019
Net tangible asset backing per ordinary security[1]	-16 cents	-38 cents

1. The net tangible asset backing includes the Right-of-use assets as per AASB 16.

APPENDIX 4D

Half Year Report

For the 26 week period ended 27 December 2020

4. Entities over which control has been gained or lost during the period

There are no entities over which control has been gained or lost during the period.

5. Dividend

An interim dividend of 13.0 cents per share has been declared by the board. The record date for the interim dividend is 10 March 2021, with payment on 25 March 2021.

6. Dividend reinvestment plan

The company does not have an active dividend reinvestment plan.

7. Details of associate and joint ventures

Please refer to the Annual Financial Report for the 52 weeks ended 28 June 2020, Note 23 of the consolidated financial statements.

8. Foreign entities

All entities comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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INTERIM CONDENSED FINANCIAL REPORT

For the 26 weeks ended
27 December 2020

Contents

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited ("Adairs", "the Company" or "the Group") and its subsidiaries, for the 26 weeks ended 27 December 2020.

Directors

The names of the Company's directors in office during the 26 weeks ended 27 December 2020 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Brett Chenoweth (appointed 16 November 2020)

Michael Butler (resigned 26 October 2020)

Mark Ronan

David MacLean

Michael Cherubino

Trent Peterson

Kate Spargo

Simon West

Kiera Grant

Principal Activities

During the 26 weeks ended 27 December 2020 and the comparative period, the principal continuing activities of the Group consisted of the retailing of homewares and home furnishings in Australia and New Zealand.

Dividends

On 15 February 2021 the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 27 December 2020. The total amount of the dividend is $21.980 million which represents a fully franked dividend of $0.13 per share. The dividend has not been provided for in the 27 December 2020 interim condensed financial report.

	Cents	$000
Interim dividends recommended:	13.00	21,980

Operating and Financial Review

Despite the challenges and uncertainties created by the COVID-19 pandemic, the Group delivered profit after income tax for the 26 weeks ended 27 December 2020 of $43,865,000, an increase of $30,707,000 from the comparative period of $13,158,000. Underlying earnings before interest, tax and depreciation ("EBIT") excluding the JobKeeper wage subsidy benefit was $60,195,000 for the 26 weeks ended 27 December 2020 which is reconciled to statutory EBIT as follows (with comparatives):

	26 weeks ended 27 Dec 2020 $'000 (Unaudited)	26 weeks ended 29 Dec 2019 $'000 (Unaudited)
Statutory profit before income tax	**62,982**	**19,947**
Finance expenses	3,329	2,572
Statutory EBIT (Non-IFRS)	**66,311**	**22,519**
Costs associated with the acquisition of Mocka	1,254	2,139
Impact of AASB 16 *Leases*[1]	(1,767)	(2,019)
National Distribution Centre transition costs	487	–
Underlying EBIT including JobKeeper (Non-IFRS)	**66,285**	**22,639**
JobKeeper wage subsidy benefit	(6,090)	–
Underlying EBIT excluding JobKeeper (Non-IFRS)	**60,195**	**22,639**

1. The impact of AASB 16 *Leases* upon transition from the former AASB 117 *Leases* resulted in an earnings shift in the interim consolidated statement of profit or loss from Occupancy expenses under AASB 117 to Depreciation and amortisation expenses and Finance expenses under AASB 16.

Revenue for the 26 weeks ended 27 December 2020 was $242,990,000, up 34.8% on the comparative period of $180,273,000.

In December 2019 during the comparative period, the Group acquired all the shares in Mocka Limited ("Mocka"). Refer to Note 3 for details of the contribution of the Mocka segment to the Group's performance in the current and comparative period.

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under *section 370C* of the *Corporations Act 2001* is set out on page 6.

Significant changes in the state of affairs

There were no changes in the state of affairs of the business during the 26 weeks ended 27 December 2020.

Matters subsequent to the end of the financial period

On 15 February 2021, the directors of Adairs Limited determined that, based on the performance of the Company during the 26 weeks ended 27 December 2020, it was appropriate to return the JobKeeper wage subsidy benefit received during the period to the Australian Government. This represents $6.1m of subsidised wages for those employees who were otherwise remunerated more than the government subsidy. This will be repaid and recognised in the Company's financial results in the second half of FY21.

On 15 February 2021, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2021 financial year. The total amount of the dividend is $21.980 million which represents an interim franked dividend of 13.0 cents per share. The dividend has not been provided for in the 27 December 2020 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the Company.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial period.

Rounding

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under *ASIC Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191.* The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and
Chief Executive Officer

Melbourne
15 February 2021

INDEPENDENT AUDITOR'S REVIEW CONCLUSION

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's review report to the members of Adairs Limited

Report on the interim financial report

Conclusion

We have reviewed the accompanying interim financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 27 December 2020, the condensed statement of profit or loss, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the 26 weeks ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 27 December 2020 and of its consolidated financial performance for the 26 weeks ended on that date; and

b. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 27 December 2020 and its consolidated financial performance for the 26 weeks ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

J Lonergan

Joanne Lonergan
Partner
Melbourne
15 February 2021

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Adairs Limited

As lead auditor for the review of the half-year financial report of Adairs Limited for the 26 weeks ended 27 December 2020, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adairs Limited and the entities it controlled during the financial period.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner

15 February 2021

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Adairs Limited, we state that:

In the opinion of the directors:

a. the financial statements and notes of Adairs Limited for the 26 weeks ended 27 December 2020 are in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 27 December 2020 and of its performance for the 26 weeks ended on that date; and

   ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*;

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and
Chief Executive Officer

Melbourne
15 February 2021

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the 26 weeks ended 27 December 2020

	Note	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Revenues from contracts with customers	4(a)	242,990	180,273
Revenues		**242,990**	**180,273**
Cost of sales		(90,998)	(75,056)
Gross profit		**151,992**	**105,217**
Other income	4(b)	90	114
Depreciation and amortisation expenses	5(b)	(21,781)	(18,857)
Finance expenses	5(a)	(3,329)	(2,572)
Salaries and employee benefits expenses	5(c)	(41,700)	(42,685)
Occupancy expenses	12	(2,082)	(4,772)
Advertising expenses		(7,641)	(4,765)
Other expenses from ordinary activities	5(d)	(11,313)	(9,594)
Costs associated with the acquisition of Mocka	8	(1,254)	(2,139)
Profit before income tax		**62,982**	**19,947**
Income tax expense		(19,117)	(6,789)
Profit for the period		**43,865**	**13,158**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	16	25.9 cents	7.9 cents
Diluted earnings per share	16	25.3 cents	7.8 cents

This Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 26 weeks ended 27 December 2020

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Profit for the period	**43,865**	**13,158**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		
Net movement on cash flow hedges	(7,800)	(1,076)
Income tax relating to the components of other comprehensive income	2,341	323
Exchange differences on translation of foreign operations	(111)	110
Other comprehensive income for the period, net of tax	**(5,570)**	**(643)**
Total comprehensive income for the period	**38,295**	**12,515**

This Consolidated Statement of Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the 26 weeks ended 27 December 2020

	Note	As at 27 Dec 2020 $'000	As at 28 Jun 2020 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	22,123	23,922
Trade and other receivables		1,388	2,949
Inventories	10	67,142	43,404
Other assets		11,617	6,754
Derivative financial instruments		–	589
TOTAL CURRENT ASSETS		**102,270**	**77,618**
NON-CURRENT ASSETS			
Property, plant and equipment		20,367	20,843
Intangibles		195,854	196,143
Right-of-use assets		96,233	94,375
Derivative financial instruments		–	149
TOTAL NON-CURRENT ASSETS		**312,454**	**311,510**
TOTAL ASSETS		**414,724**	**389,128**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		43,728	31,257
Other liabilities	11	15,389	10,721
Contingent consideration	8	11,371	–
Lease liabilities		36,049	36,252
Current tax liabilities		14,049	9,931
Provisions		10,811	6,121
Derivative financial instruments		6,118	–
TOTAL CURRENT LIABILITIES		**137,515**	**94,282**
NON-CURRENT LIABILITIES			
Other liabilities	11	1,393	1,084
Contingent consideration	8	22,588	33,749
Deferred tax liabilities		7,996	12,182
Borrowings	13	–	24,927
Lease liabilities		80,706	78,348
Provisions		3,035	3,985
Derivative financial instruments		921	–
TOTAL NON-CURRENT LIABILITIES		**116,639**	**154,275**
TOTAL LIABILITIES		**254,154**	**248,557**
NET ASSETS		**160,570**	**140,571**
EQUITY			
Contributed equity		74,098	74,098
Share based payment reserve		591	289
Cash flow hedge reserve		(4,927)	532
Foreign currency translation reserve		(309)	(198)
Retained earnings		91,117	65,850
TOTAL EQUITY		**160,570**	**140,571**

This Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 26 weeks ended 27 December 2020

	Note	Ordinary shares $'000	Share-based payment reserves $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 28 June 2020		**74,098**	**289**	**532**	**(198)**	**65,850**	**140,571**
Profit for the period		–	–	–	–	43,865	43,865
Other comprehensive income		–	–	(5,459)	(111)	–	(5,570)
Total comprehensive income for the period		**–**	**–**	**(5,459)**	**(111)**	**43,865**	**38,295**
Dividend payment	6	–	–	–	–	(18,598)	(18,598)
Share based payments	15	–	302	–	–	–	302
At 27 December 2020		**74,098**	**591**	**(4,927)**	**(309)**	**91,117**	**160,570**

	Note	Ordinary shares $'000	Share-based payment reserves $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 30 June 2019		**68,349**	**329**	**709**	**(27)**	**48,957**	**118,317**
Impact of adoption of new accounting standards (i)		–	–	–	–	(5,118)	(5,118)
At 30 June 2019		**68,349**	**329**	**709**	**(27)**	**43,839**	**113,199**
Profit for the period		–	–	–	–	13,158	13,158
Other comprehensive income		–	–	(753)	110	–	(643)
Total comprehensive income for the period		**–**	**–**	**(753)**	**110**	**13,158**	**12,515**
Dividend payment	6	–	–	–	–	(13,270)	(13,270)
Share based payments	15	–	170	–	–	–	170
Issue of limited recourse loan		–	(750)	–	–	–	(750)
Issued shares		5,749	–	–	–	–	5,749
At 29 December 2019		**74,098**	**(251)**	**(44)**	**83**	**43,727**	**117,613**

i. The Group adopted AASB 16 Leases on a modified retrospective basis. This resulted in a decrease of $5,118,000 to retained earnings as at 1 July 2019, being the cumulative effect on initial application of the standard.

This Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

for the 26 weeks ended 27 December 2020

	Note	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		272,272	199,594
Payments to suppliers and employees (inclusive of GST)		(204,677)	(152,652)
Interest received		21	36
Income tax paid		(16,852)	(7,806)
Government grants received		14,898	–
Interest paid		(2,687)	(2,524)
Net cash flows from operating activities		62,975	36,648
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangibles		(3,560)	(3,815)
Acquisition of subsidiary, net of cash acquired	8	–	(42,509)
Net cash flows used in investing activities		(3,560)	(46,324)
FINANCING ACTIVITIES			
Dividends paid		(18,598)	(13,270)
Repayment of borrowings		(32,000)	(15,000)
Proceeds from borrowings		6,000	48,000
Payment of borrowing costs		–	(865)
Payment of principal portion of lease liabilities		(16,503)	(15,021)
Net cash flows used in financing activities		(61,101)	3,844
Net decrease in cash and cash equivalents		(1,686)	(5,832)
Net foreign exchange difference		(113)	10
Cash and cash equivalents at beginning of the period		23,922	16,708
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9	**22,123**	**10,886**

This Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the 26 weeks ended 27 December 2020

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 27 December 2020 were authorised for issue in accordance with a resolution of the directors on 15 February 2021.

Adairs Limited ("the Company" or "the Parent") is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX").

During the 26 weeks ended 27 December 2020 and the comparative period, the principal continuing activities of the Group consisted of the retailing of homewares and home furnishings in Australia and New Zealand. The Group's principal place of business is 2 International Court, Scoresby, Australia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The interim condensed financial report for the 26 weeks ended 27 December 2020 has been prepared in accordance with AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

This interim condensed financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim condensed financial report be read in conjunction with the annual report for the 52 weeks ended 28 June 2020 and considered together with any public announcements made by Adairs Limited since that date in accordance with the continuous disclosure obligations of the ASX listing rules.

The interim condensed financial report has also been prepared on a historical cost basis, except for derivative financial instruments, contingent consideration and share based payments which have been measured at fair value.

Certain classifications have been made in the interim condensed financial report to ensure that prior year comparative information conforms to the current year presentations.

The interim condensed financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(b) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed financial report are consistent with those followed in the preparation of the Group's annual consolidated financial report for the 52 weeks ended 28 June 2020, except for the adoption of new standards effective for the Group from 29 June 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and revised standards and amendments thereof and interpretations effective for the Group from 29 June 2020 include:

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*

  The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*

  The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*

  The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

  The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

  The adoption of these amending standards did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

Notes to the Financial Statements

for the 26 weeks ended 27 December 2020

NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units which form two reportable segments, being Adairs and Mocka. Prior to the acquisition of Mocka on 1 December 2019, the Group operated one reportable segment, being Adairs.

Operating segments are identified on the basis of internal reports to senior management about components of the Group that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.

Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services, which when aggregated, forms two reportable operating segments.

The following tables present revenue and profit before tax information for the Group's operating segments for the 26 weeks ended 27 December 2020:

	Adairs $'000	Mocka $'000	Consolidated $'000
26 weeks ended 27 December 2020			
Revenue			
External customer	215,033	27,957	242,990
Inter-segment	–	–	–
Total revenue	**215,033**	**27,957**	**242,990**
Income/(expenses)			
Cost of sales	(74,880)	(16,118)	(90,998)
Other income	88	2	90
Depreciation and amortisation expenses	(21,274)	(507)	(21,781)
Salaries and employee benefits expense	(39,685)	(2,015)	(41,700)
Occupancy expenses	(1,950)	(132)	(2,082)
Advertising expenses	(6,768)	(873)	(7,641)
Other expenses from ordinary activities	(9,994)	(1,319)	(11,313)
Costs associated with the acquisition of Mocka	(1,254)	–	(1,254)
Earnings before interest and tax	**59,316**	**6,995**	**66,311**
Finance expenses	(3,278)	(51)	(3,329)
Profit before tax	**56,038**	**6,944**	**62,982**

NOTE 3. SEGMENT REPORTING (continued)

	Adairs $'000	Mocka $'000	Consolidated $'000
26 weeks ended 29 December 2019			
Revenue			
External customer	177,880	2,393	180,273
Inter-segment	–	–	–
Total revenue	**177,880**	**2,393**	**180,273**
Income/(expenses)			
Cost of sales	(73,611)	(1,445)	(75,056)
Other income	114	–	114
Depreciation and amortisation expenses	(18,799)	(58)	(18,857)
Salaries and employee benefits expense	(42,485)	(200)	(42,685)
Occupancy expenses	(4,752)	(20)	(4,772)
Advertising expenses	(4,652)	(113)	(4,765)
Other expenses from ordinary activities	(9,298)	(296)	(9,594)
Costs associated with the acquisition of Mocka	(2,139)	–	(2,139)
Earnings before interest and tax	**22,258**	**261**	**22,519**
Finance expenses	(2,564)	(8)	(2,572)
Profit before tax	**19,694**	**253**	**19,947**

Note: Mocka was acquired by the Group on 1 December 2019 during the comparative period ended 29 December 2019.

Group financing (including all finance costs and finance income) and other overhead charges are managed and monitored by the Adairs segment and are not allocated to other segments.

The Group operated in one geographical segment for the 26 weeks ended 27 December 2020, being Australia and New Zealand.

NOTE 4. REVENUES

(a) Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Types of goods and services		
Sale of goods and services - stores	152,786	145,994
Sale of goods and services - online	90,204	34,279
Total revenue from contracts with customers	**242,990**	**180,273**

(b) Other Income

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Interest income	21	36
Other	69	78
	90	**114**

Notes to the Financial Statements

for the 26 weeks ended 27 December 2020

NOTE 5. EXPENSES

(a) Finance expenses

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Interest on borrowings	774	589
Interest on lease liabilities	2,044	1,983
Discount expense on contingent consideration	511	–
	3,329	**2,572**

(b) Depreciation and amortisation expenses

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Depreciation of property, plant and equipment	4,199	3,487
Depreciation of right-of-use assets	16,800	15,021
Amortisation of computer software	782	349
	21,781	**18,857**

(c) Salaries and employee benefits expense

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Wages and salaries (i)	44,183	39,636
Government grant income – wage subsidies (i)	(6,090)	–
Defined contribution superannuation expense	3,305	2,879
Share based payment expense	302	170
	41,700	**42,685**

(i) During the 26 weeks ended 27 December 2020, the Group was entitled to receive gross government grants under the JobKeeper program totalling $10,742,000. Of this total amount:

- $4,652,000 related to the remuneration of employees who were not working or did not work sufficient hours to be otherwise remunerated more than the entitled subsidy. This amount is included within Wages and salaries above.
- $6,090,000 related to the remuneration of other employees and is considered a benefit to the Group for employees who were otherwise remunerated more than the entitled subsidy. This amount is disclosed separately from Wages and salaries above.

(d) Other expenses from ordinary activities

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Credit card and merchant fees	2,739	1,849
Professional fees	984	776
Storage costs	1,626	1,482
Packaging and consumables	1,103	1,149
Other	4,861	3,936
	11,313	**9,192**

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Dividends on ordinary shares declared and paid:		
Final dividend for 2020: 11.0 cents per share (2019: 8.0 cents)	18,598	13,270
Proposed dividends on ordinary shares:		
Interim cash dividend for 2021: 13.0 cents per share (2020: 0.0 cents)	21,980	–

The proposed interim dividend for the 26 weeks ended 27 December 2020 has not been provided for in the financial results as at 27 December 2020 as it had not been declared.

NOTE 7. IMPAIRMENT TESTING

Intangible assets – goodwill and brand names

After initial recognition, goodwill and indefinite-life brand names acquired in a business combination are measured at cost less any accumulated impairment losses. Goodwill and brand names are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill and brand names were subject to a full annual impairment test as at 28 June 2020. A review of indicators of impairment relating to goodwill and brand names was performed as at 27 December 2020. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 27 December 2020. The annual financial report for the 52 weeks ended 28 June 2020 details the most recent annual impairment tests undertaken for both brand names and goodwill. The Group's impairment tests for goodwill and brand names are based on value-in-use calculations. The key assumptions used to determine the recoverable amounts for the cash-generating units to which brand names and goodwill relate are disclosed in the annual financial report.

Property, plant and equipment

A review of indicators of impairment relating to property, plant and equipment was performed as at 27 December 2020. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 27 December 2020.

NOTE 8. BUSINESS COMBINATIONS

During the comparative period, on 1 December 2019 the Group acquired all the shares and voting rights in Mocka Limited ("Mocka"), a pure-play online retailer of home and living products operating in Australia and New Zealand. The net assets acquired and goodwill arising from the business combination was finalised in the annual report for the 52 weeks ended 28 June 2020.

As part of the purchase consideration for Mocka, the Group agreed to an earn-out arrangement. The Group will make additional cash payments to the vendors of Mocka based on an agreed multiple of earnings before interest and tax over the 2021, 2022 and potentially 2023 financial years.

A portion of the earn-out arrangement is contingent on certain vendors remaining in continuous employment up to 34 months from the acquisition date and this portion is recognised as an expense in the statement of profit or loss over the relevant period of service within costs associated with the acquisition of Mocka.

The portion of the earn-out arrangement that is not related to employment conditions is included as contingent consideration in the business combination.

There were no business combinations during the 26 weeks ended 27 December 2020.

Notes to the Financial Statements
for the 26 weeks ended 27 December 2020

NOTE 9. CASH AND CASH EQUIVALENTS

	As at 27 Dec 2020 $'000	As at 28 June 2020 $'000
Cash at bank	22,035	23,861
Cash on hand	88	61
	22,123	**23,922**

NOTE 10. INVENTORIES

	As at 27 Dec 2020 $'000	As at 28 June 2020 $'000
Stock on hand	48,398	35,540
Stock in transit	18,744	7,864
	67,142	**43,404**

NOTE 11. OTHER LIABILITIES

	As at 27 Dec 2020 $'000	As at 28 June 2020 $'000
Current other liabilities		
Deferred revenue	15,016	10,721
Other liabilities	373	–
Total current other liabilities	**15,389**	**10,721**
Non-current other liabilities		
Deferred revenue	1,393	1,084
Total non-current other liabilities	**1,393**	**1,084**
Current	15,389	10,721
Non-current	1,393	1,084
Total other liabilities	**16,782**	**11,805**

Deferred revenue includes amounts associated with the Linen Lover membership program, unredeemed gift cards, undelivered customer orders, as well as other revenue from contracts with customers received in advance of recognition.

NOTE 12. LEASE ARRANGEMENTS AND OTHER COMMITMENTS

As disclosed in the annual report for the 52 weeks ended 28 June 2020, the Group adopted AASB 2020-4 *Amendments to Australian Accounting Standards – COVID-19-Related Rent Concessions*.

The amendments introduced a practical expedient into AASB 16 *Leases* which permits a lessee to elect not to account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affect payments which fall due before 30 June 2021 and there has been no substantive change in terms and conditions.

Where the practical expedient has been applied, rent concessions received have been accounted for as a reduction in Occupancy expenses in the interim consolidated statement of profit or loss for the 26 weeks ended 27 December 2020. Other items included within Occupancy expenses are primarily variable lease payments and outgoings.

The Group has also entered into a warehousing and logistics agreement with a third-party supplier that is yet to commence as at 27 December 2020. The agreement is subject to certain fixed and activity-based payments that may vary throughout the term of the agreement and will be determined upon commencement of the agreement.

NOTE 13. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 27 Dec 2020 $'000	As at 28 June 2020 $'000
Non-current				
Bank Loan – Facility A	BBSW +1.85	31 March 2023	–	24,927
Total non-current			**–**	**24,927**
Current			–	–
Non-current			–	24,927
Total interest-bearing loans and borrowings			**–**	**24,927**

(a) Financing facilities available

At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:

	As at 27 Dec 2020 $'000	As at 28 June 2020 $'000
Term debt facilities available at the reporting date:	90,000	90,000
Term debt facilities used at the reporting date:	–	(26,000)
Multi option facilities available at the reporting date:	6,500	6,500
Multi option facilities used at the reporting date*:	(500)	(500)
Facilities unused at the reporting date:	**96,000**	**70,000**

*The $500,000 used on the multi option facilities represents a bank guarantee.

Term debt facilities of $90,000,000 are available until 31 March 2023 with multi option facilities of $6,500,000 subject to an annual review.

NOTE 14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Forward currency contracts — cash flow hedges

The Group buys inventories that are purchased in US Dollars ("USD"). In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward currency contracts to purchase USD. These contracts are hedging highly probable forecasted inventory purchases and they are timed to mature when payments are scheduled to be made. These derivatives have met the requirements to qualify for hedge accounting with movements recorded in other comprehensive income accordingly.

Fair value of financial assets and liabilities

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of forward currency contracts is measured using the Level 2 method. Forward currency contracts are measured based on observable spot exchange rates, the yield curves of the USD as well as the currency basis spread between the currencies.

The fair value of the contingent consideration related to the acquisition of Mocka is measured at fair value using the Level 3 method. The contingent consideration is measured based on a discounted cashflow methodology using management's estimation of future forecast earnings before interest and tax for Mocka and, in accordance with the sale and purchase agreement, an agreed multiple over the 2021, 2022 and potentially 2023 financial years.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	As at 27 December 2020		As at 28 June 2020	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Forward exchange contracts	–	–	738	738
	–	**–**	**738**	**738**
Financial liabilities				
Forward exchange contracts	(7,039)	(7,039)	–	–
Contingent consideration	(33,959)	(33,959)	(33,749)	(33,749)
Bank Loans	–	–	(24,927)	(24,927)
	(40,998)	**(40,998)**	**(58,676)**	**(58,676)**

NOTE 15. SHARE-BASED PAYMENTS

In addition to those disclosed at 28 June 2020, the following share options were granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP") during the 26 weeks ended 27 December 2020.

2021 Tranche

In November 2020, 3,000,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from the grant date to 30 June 2024. There are two separate Performance conditions – an EPS Performance condition and a Sales Performance condition. If these conditions are not met, the options will lapse immediately. The contractual life of each option granted is six years.

The fair value of each share option tranche is estimated at grant date by taking into account the terms and conditions upon which the options were granted. The fair value of share options granted was estimated on the grant date using the following assumptions:

	2021 Tranche
Share option pricing model	Black Scholes
Dividend yield	6.00%
Expected volatility	60.00%
Risk-free interest rate	0.31%
Expected life of share options	4.80 years
Exercise share price	$4.04
Fair value of share options at grant date (per share option)	**$0.90**

The weighted average fair value of the share options granted during the 26 weeks ended 27 December 2020 was $0.90 (26 weeks ended 29 December 2019: $0.38).

The weighted average remaining contractual life of share options outstanding as at 27 December 2020 was 4.4 years (28 June 2020: 4.5 years).

For the 26 weeks ended 27 December 2020, the Group has recognised $302,000 of share-based payment expense in the consolidated income statement (26 weeks ended 29 December 2019: $170,000).

During the comparative period being the 26 weeks ended 29 December 2019, a key management personnel was extended cash in the form of a loan for $750,000 to purchase ordinary shares in the Company. The arrangement is a limited recourse loan which may be settled through the return of the ordinary shares in the Company to the Group.

Notes to the Financial Statements

for the 26 weeks ended 27 December 2020

NOTE 16. EARNINGS PER SHARE

Basic earnings per share ("EPS") amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by weighted average number of ordinary shares outstanding during the period, adjusted for dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	26 weeks ended 27 Dec 2020 $'000	26 weeks ended 29 Dec 2019 $'000
Profit for the year attributable to ordinary equity holders of the Parent	43,865	13,158

	As at 27 Dec 2020 '000	As at 29 Dec 2019 '000
Weighted average number of ordinary shares for basic EPS	169,077	166,016
Effect of dilution:		
Share options	4,478	1,607
Weighted average number of ordinary shares adjusted for the effect of dilution	**173,555**	**167,623**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of this interim condensed financial report.

NOTE 17. EVENTS AFTER THE BALANCE SHEET DATE

On 15 February 2021, the directors of Adairs Limited determined that, based on the performance of the Company during the 26 weeks ended 27 December 2020, it was appropriate to return the JobKeeper wage subsidy benefit received during the period to the Australian Government. This represents $6.1m of subsidised wages for those employees who were otherwise remunerated more than the government subsidy. This will be repaid and recognised in the Company's financial results in the second half of FY21.

On 15 February 2021, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2021 financial year. The total amount of the dividend is $21.980 million which represents an interim franked dividend of 13.0 cents per share. The dividend has not been provided for in the 27 December 2020 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the Company.

CORPORATE INFORMATION

Adairs Limited
ABN 50 147 375 451

Directors

Brett Chenoweth (appointed 16 November 2020)

Michael Butler (resigned 26 October 2020)

Mark Ronan

David MacLean

Michael Cherubino

Trent Peterson

Kate Spargo

Simon West

Kiera Grant

Company Secretary

Fay Hatzis

Registered office

2 International Court
Scoresby
Victoria, 3179
Australia

Principal place of business

2 International Court
Scoresby
Victoria, 3179
Australia
Phone: 1800 990 475

Share register

Link Market Services
Locked Bag A14
Sydney South NSW 1235
Phone: 1300 554 474

Auditors

Ernst & Young

Solicitors

Herbert Smith Freehills

Bankers

Commonwealth Bank of Australia

adairs