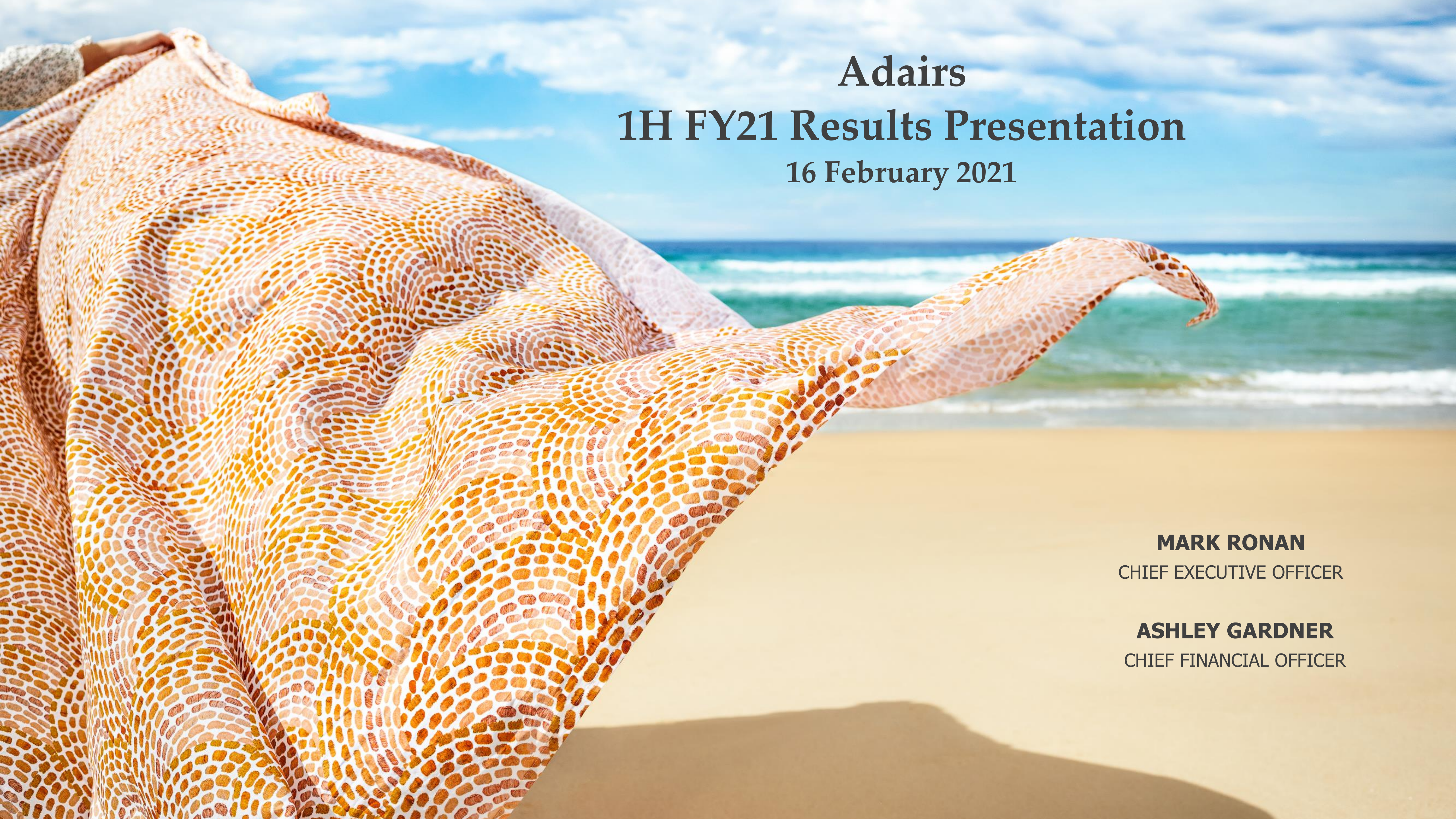

Adairs
1H FY21 Results Presentation
16 February 2021

MARK RONAN
CHIEF EXECUTIVE OFFICER

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CHIEF FINANCIAL OFFICER

1H FY21 highlights

Record sales across all channels

- Group sales +34.8% to $243.0m with LFL sales +32.4%
- Group online sales +163.2% to $90.2m (37% of Group Sales)
  - Adairs online sales +95.2% to $62.2m
  - Mocka +44.4%[1] to $28.0m
- Adairs store sales +4.6% with LFL store sales +14.4%[2]

Omni strategy delivering

- Online sales now 37% of total sales / LTM online sales of $180.2m
- Linen Lover membership now exceeds 900,000

Strong gross margin result

- Gross margin rate up 545bps to 66.1%
  - Adairs gross margin up 690bps to 67.8%
  - Mocka gross margin up 230bps to 53.4%[1]

Underlying[3] EBIT up 166% to $60.2m

- Strong operating leverage drove EBIT margin to 24.8% (LY: 12.6%)
- Excludes the JobKeeper wage subsidy benefit of $6.1m to be repaid

Excellent cash generation

- Net cash at period end of $22.1m
- 13.0 cent per share fully franked interim dividend declared

Note 1: For information only, Mocka was acquired in December 2019.
Note 2: Like-for-like sales growth ("LFL") has been adjusted for any store closures and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).
Note 3: Refer to Appendix 4 for reconciliation of underlying results to statutory results.

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Profit and loss

Record sales and profit

- Group sales +34.8% despite 43 Greater Melbourne stores being closed for almost half the period
  - Adairs online sales up 95.2% to $62.2m
  - Mocka sales +44.4% to $28.0m[1]
  - Store LFL sales up 14.4%[2]
- Adairs gross margin +690bps to 67.8% benefiting from coordinated sourcing and retail pricing initiatives, reduced depth of markdowns and 29 fewer storewide promotion days
- Strong operating leverage reduced CODB by 791 bps to 35.8%, largely driven by disciplined cost control whilst delivering strong sales growth, assisted by:
  - Store costs (rent/wages) down due to Melbourne closures
  - COVID rent rebates of $2.2m received in the half related to store closures between April and June 2020 (FY20)
  - Increased investment in marketing to drive brand awareness and sales
- Group underlying EBIT up 166% to $60.2m
  - Adairs EBIT up 137.3% to $53.2m
  - Mocka EBIT of $7.0m (up 97.6% on last year[1])
- Group underlying EBIT margin 24.8% (12.6% in HY20)
- Statutory[3] EBIT of $66.3m (+194.5%), NPAT of $43.9m (+233.4%) and EPS 25.9 cents per share (+227.3% on last year)

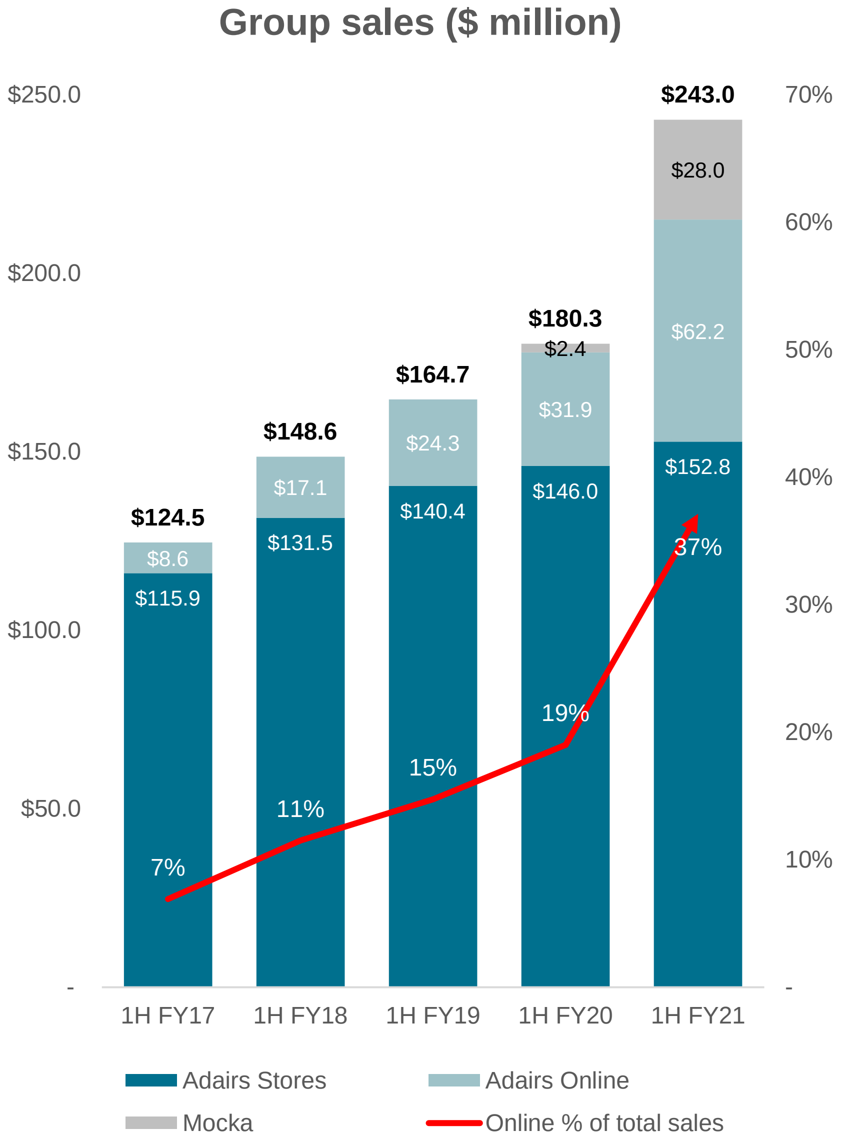
($ million)	Adairs			Mocka		Group		
	Underlying HY21	Underlying HY20	Change (%)	Underlying HY21 (26 weeks)	Underlying HY20 (4 weeks)	Underlying HY21	Underlying HY20	Change (%)
Online sales	62.2	31.9	95.2%	28.0	2.4	90.2	34.3	163.2%
Store sales	152.8	146.0	4.6%	-	-	152.8	146.0	4.6%
Total sales	**215.0**	**177.9**	**20.9%**	**28.0**	**2.4**	**243.0**	**180.3**	**34.8%**
Online % of total sales	*28.9%*	*17.9%*		*100.0%*	*100.0%*	*37.1%*	*19.0%*	
Gross margin	**145.8**	**108.3**	**34.6%**	**14.9**	**1.1**	**160.7**	**109.4**	**46.9%**
Online freight costs	(5.6)	(3.9)	43.9%	(3.1)	(0.3)	(8.7)	(4.2)	107.1%
Gross profit	**140.2**	**104.4**	**34.2%**	**11.8**	**0.8**	**152.0**	**105.2**	**44.5%**
CODB	(82.3)	(78.1)	5.3%	(4.6)	(0.6)	(86.9)	(78.7)	10.4%
EBITDA	**57.9**	**26.3**	**120.3%**	**7.2**	**0.2**	**65.1**	**26.5**	**145.8%**
Depreciation	(4.7)	(3.9)	21.6%	(0.2)	-	(4.9)	(3.9)	26.2%
EBIT (ex. JobKeeper)	**53.2**	**22.4**	**137.3%**	**7.0**	**0.2**	**60.2**	**22.6**	**166.0%**
JobKeeper benefit	6.1	-		-	-	6.1	-	
EBIT (inc. JobKeeper)	**59.3**	**22.4**	**164.5%**	**7.0**	**0.2**	**66.3**	**22.6**	**193.0%**

% Sales								
Gross margin %	67.8%	60.9%	*+690 bps*	53.4%	45.8%	66.1%	60.7%	*+545 bps*
Gross profit %	65.2%	58.7%	*+649 bps*	42.3%	33.3%	62.5%	58.4%	*+419 bps*
CODB %	38.3%	43.9%	*-566 bps*	16.5%	25.0%	35.8%	43.7%	*-791 bps*
EBITDA %	26.9%	14.8%	*+1,214 bps*	25.8%	8.3%	26.8%	14.7%	*+1,209 bps*
EBIT (ex. JobKeeper) %	24.7%	12.6%	*+1,213 bps*	25.2%	8.3%	24.8%	12.6%	*+1,222 bps*
EBIT (inc. JobKeeper) %	27.6%	12.6%	*+1,497 bps*	25.2%	8.3%	27.3%	12.6%	*+1,473 bps*

Note 1: Referenced results are underlying and exclude the impact of (i) AASB 16 *Leases, (ii)* Mocka acquisition related transaction costs, (iii) the JobKeeper wage subsidy benefit and; (iv) one-off costs associated with the transition to the new National Distribution Centre. Refer to Appendix 4 for reconciliation to statutory results.

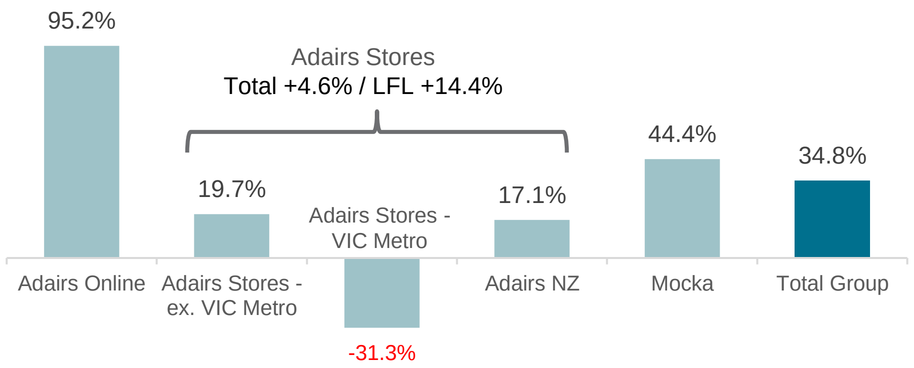
Note 1: For information only, Mocka was acquired in December 2019.
Note 2: Like-for-like sales growth ("LFL") has been adjusted for any store closures and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).
Note 3: Refer Appendix 4 for a reconciliation of underlying and statutory results.

Sales growth across all channels



Sales growth breakdown

- Online sales growth helped offset lost sales during the Greater Melbourne store closure period
- LFL sales growth was strongly positive across all states and also in NZ.



- Victorian Metro stores were closed for 82 days (45% of total 1H FY21 trading days) due to COVID-19 related restrictions impacting 43 Greater Melbourne stores

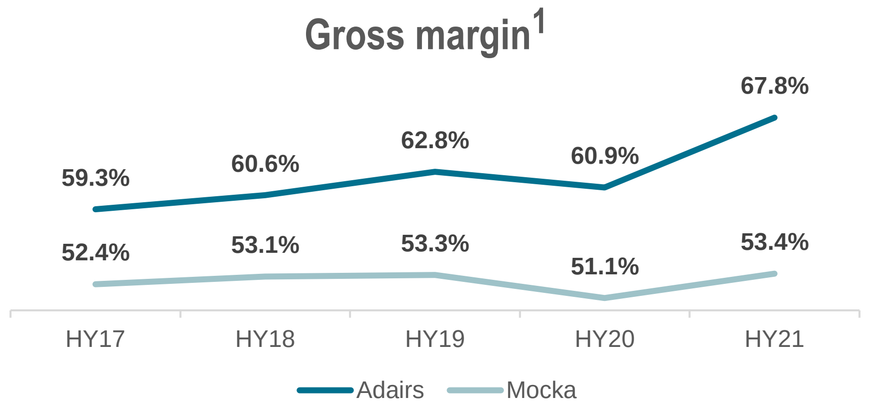
Sales growth drivers - Adairs

- Adairs sales growth driven by
  - significant growth in number of transactions, particularly online; and
  - strong gains in average selling price across both channels

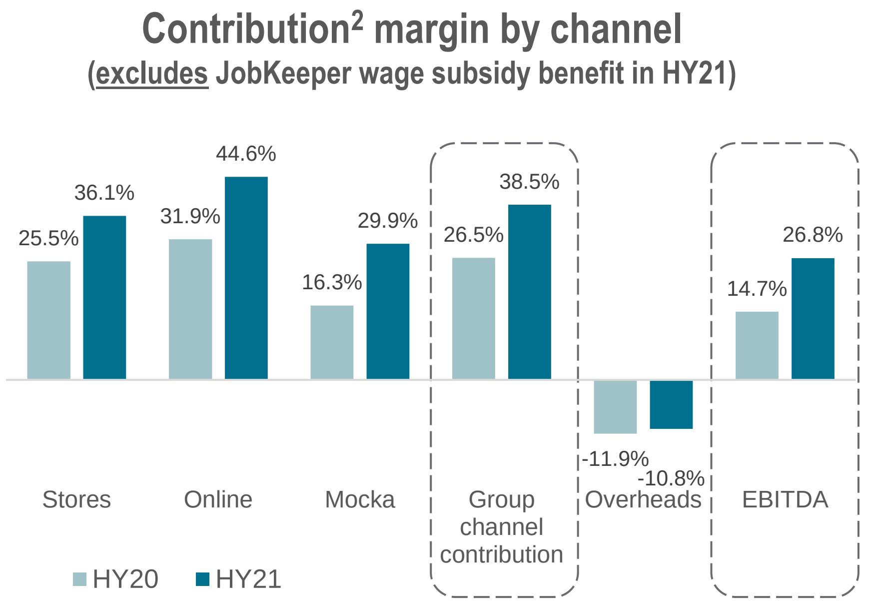
Sales growth drivers - Mocka

- Mocka sales growth driven by strong gains in average selling price
- Number of transactions also well up but constrained by stock levels for most of the half

Contribution margins have improved across all channels



Note 1. Mocka gross margin includes unaudited period prior to Adairs acquisition in December 2019.



Note 2. See Appendix 6 for explanation of how contribution margins are calculated

Underlying gross margin rose 545bps to 66.1%

- Margin growth for both businesses achieved through continued strong product execution; continuation of price optimisation; reduced depth of discount; and 29 fewer full promotional days in Adairs than 1H FY20.
- Average stock on hand across both businesses was lower than prior year requiring reduced promotional activity. With improved stock levels, selective promotional activity will resume in 2H FY21, albeit gross margin remains a key focus.

Contribution margins have improved across all channels, increasing Group EBITDA margin to 26.8% from 14.7% in 1H FY20

Online contribution margin

Increased to 44.6% (from 31.9%) driven by:

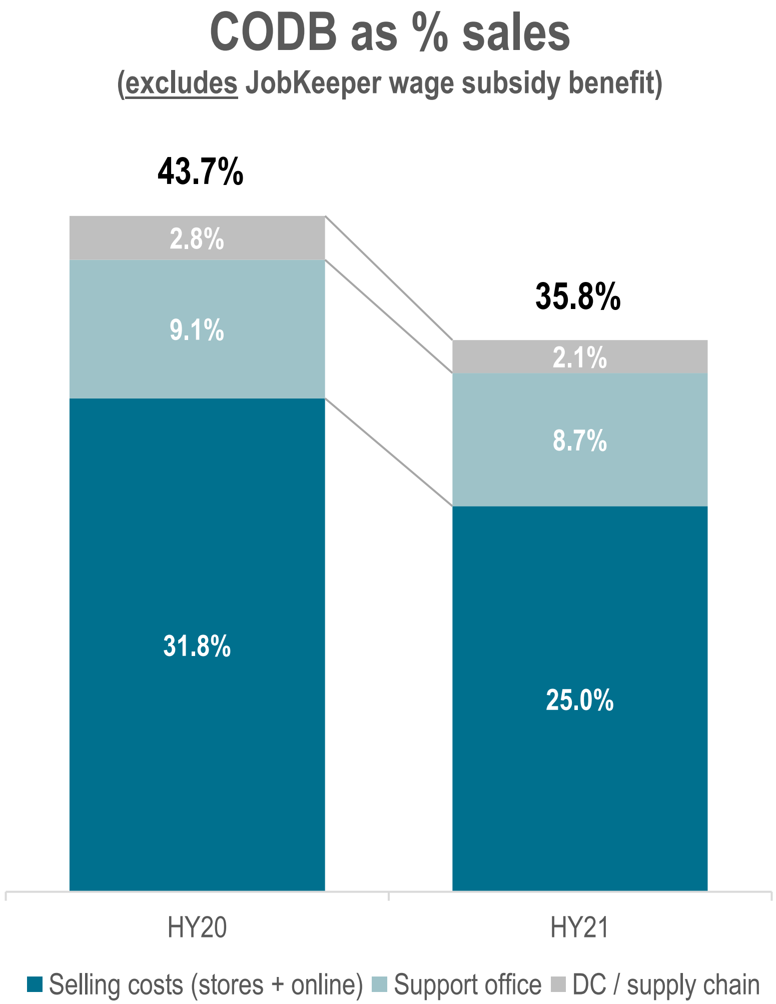
- higher online gross margin
- lower absolute cost to fulfil per order due to process and productivity improvements and lower delivery costs
- higher ROI on marketing despite increased spend
- continued benefits from economies of scale in this channel

Store contribution margin

Increased to 36.1% (from 25.5%) driven by:

- higher stores gross margin
- labour costs controlled and assisted by higher ASP and lower stock movements due to reduced stock holdings
- strong operating leverage from rent (despite the Greater Melbourne store closure period)
- COVID rent abatements of $2.2m recognised in 1H FY21

Costs of doing business (CODB)



Selling [1] (stores/online) CODB %

Selling CODB has been carefully managed throughout the period with operating leverage achieved in both Stores and Online

- Store costs were managed in line with planned sales with operating leverage achieved through strong LFL sales growth
- COVID rent rebates related to the store closures between April and June 2020 of $2.2m were recognised in 1H FY21
- Online costs were lower due to improved pick-and-pack productivity and lower delivery costs despite greater marketing investment to drive higher ROI

Support Office CODB %

- Unchanged as a % of sales as we continue to invest in talent and capability across the key growth areas of the Group

DC [2] / Supply Chain CODB %

- Operating leverage as a result of ongoing continuous improvement initiatives to support growth and improve service and efficiency

Note 1: Selling costs comprise store labour costs, store rents, all marketing costs and other directly attributable administrative costs (note that online freight costs are included in gross profit).
Note 2: DC operating costs include costs to support stores.

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Capital management

Strong balance sheet

- Inventory is clean and stock turns continue to improve
- Adairs inventory up $11.9m to $46.9m (+34.0%)
  - c.22% of this stock is in transit at end of the period (16% at June 2020)
  - Stock levels are now in accordance with plan
- Mocka inventory up $11.8m to $20.3m
  - c.42% of this stock is in transit
  - Stock-on-hand levels have improved and are expected to be in line with plan from end of February 2021
- Stock flow ex China / SE Asia remains inconsistent due to sea freight disruptions across the region. However, our plans have been adapted to accommodate delays without a significant impact on our ranging or customer experience
- Net Cash of $22.1m, with no outstanding drawn debt
  - $90m of term finance facilities available until March 2023
  - First Mocka earn-out payment[1] due around September 2021 expected to be $14.8m-$16.7m

Cash flow

- Strong growth in underlying operating cash flows up 91% to $46.5m

Capex

- $3.6m capex for 1H FY21
  - 3 new Homemaker stores and 1 refurbishment ($2.1m)
  - Investment in IT and digital initiatives ($1.5m)
- Continued investment in digital initiatives and NDC strategy in 2H FY21

Dividend

- A fully franked interim dividend of 13.0 cents per share has been declared
  - Record Date: Wednesday, 10 March 2021
  - Payment Date: Thursday, 25 March 2021

Note 1: Mocka earn-out payment consists of a contingent consideration component and a portion deemed to be remuneration of the vendors for their ongoing employment by the company.

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Beyond FY21 – The drivers

1 Proven and resilient business model

Strong brands (that we own and control)

- Lower cost of customer acquisition and retention
- Brand and product exclusivity
- Higher margins
- Success in category expansion

Large and loyal customer base

- >900k paid up Linen Lover Club members
  - Highly engaged - visit more often and spend more each visit than non-members (account for 75% of Adairs sales)
- c.50% of new customers acquired during COVID-19 have now shopped with us again across one of our channels
- Increasing investment in customer data analytics to further enhance the value of this program for our customers and Adairs

Vertical supply chain

- Exclusive products designed in-house
- Greater control (range/quality/cost/timing) and more differentiation
- More agile/responsive to changing conditions and consumer trends
- Significantly higher gross margins / profitability

2 Digital transformation and omni-channel leadership

Our multi-channel offer gives us a larger TAM, significant synergy across channels, and delivers customers a superior and more flexible shopping experience

Development of our digital channel

- Accelerating our digital transformation through additional investment in customer acquisition, customer experience, platform and team
- Omni customers are the most valuable
  - 1H FY21 saw a 60% increase in the value of sales to customers shopping across both channels over 1H FY20

High exposure to online growth

- Adairs online sales +95.2% and Mocka +44.4%[1] in 1H FY21
- Total online sales now 37% of total Group sales
- Adairs omni channel shoppers[2] now represent ~41% of total Adairs sales
- Winning share as customers transition to online/omni

Note 1: For information only. Adairs acquired Mocka in December 2019.

Note 2: Omni channel refers to sales made through the digital platform, being sales from the online store and sales of stock not ranged in store but where the order is placed by the customer within the store and fulfilled from the central warehouse.

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Beyond FY21 – The drivers

3 Mocka growth

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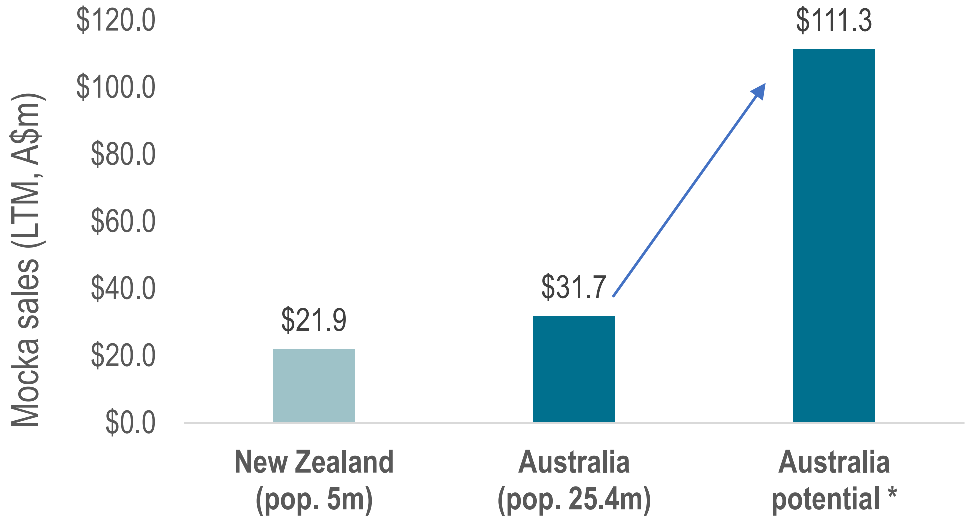
- Australian brand awareness is growing rapidly with AU website visits +56%
- Expansion of Australian warehouse facilities recently completed to support growth
- Low market share in a very large category
- Product category expansion opportunities
- Capitalising on increased search activity during COVID-19 to increase customer database to over 500k customers

How big could Mocka Australia get if it achieved "sales to population" parity with NZ?



* Provided for illustrative purposes only

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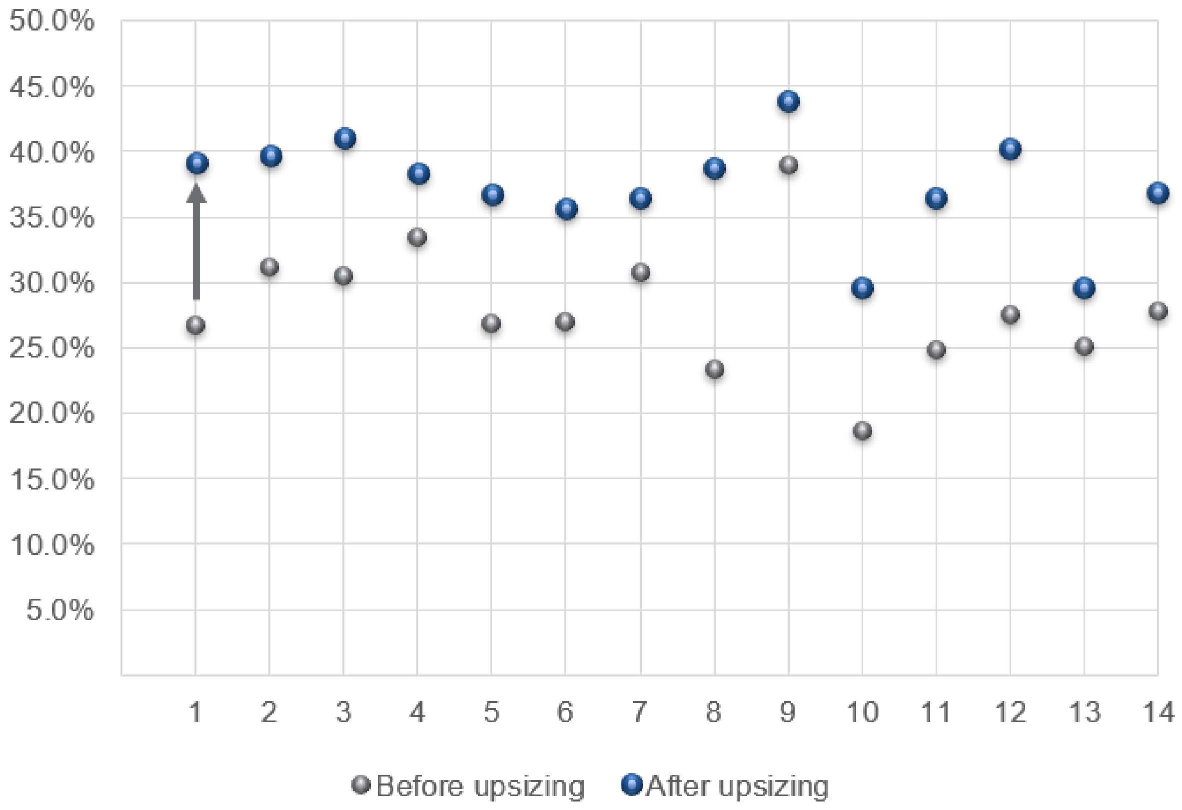
Beyond FY21 – The drivers

4 **Profitable store formats**

- All Stores are profitable with relatively short lease terms
- Larger stores are more profitable and significant upsizing opportunities remain within the current portfolio. Upsizing benefits:
  - showcase more products / categories
  - average increase of 950bp in store contribution margin (see graph below)
  - a typical upsized store delivers $250-350k more profit <u>annually</u> after upsizing (representing a c.60% average increase in store contribution amount).
- Profitable new store opportunities remain
- Stores provide a valued and trusted engagement point with our customers

Store contribution margin – Impact of upsizing a store



Contribution margin has been adjusted for the impact of COVID affected trading periods and compares trading for the 12 months prior to upsize to the 12 months following upsize.

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Beyond FY21 – The drivers

5 Omni Supply Chain

Construction of our DHL-operated National Distribution Centre (NDC) in Melbourne is well underway and remains on track to be operational in Q1 of FY22.

The project experienced some delays as a result of the COVID restrictions in Victoria in Aug/Sep 2020, and from overseas as a result of COVID restrictions in countries where key components are being manufactured.

- Whilst these delays may impact the savings realized in FY22, this important initiative will still deliver annual savings of $3.5m p.a. once fully operational
- Required capital costs of c.$1.5-2.0m (mainly IT)
- Forecast one-off operational transition costs of c.$3.5m in 2H FY21

The new supply chain capability provided by the NDC will:

- Deliver a local supply chain solution that supports our strategy to enable customers to shop how, when and where they choose
- Adapt to a changing mix of sales between online and stores
- Consolidate DC operations into one facility – improved stock flow and online order fulfillment
- Improve stock availability in stores through more frequent replenishment options
- Increase capacity and improve service levels for online and stores during peak trading periods
- Support business growth well into the future across all channels

Trading update and outlook

Trading update

For the first seven weeks of 2H FY21, sales have remained well ahead of the prior year period:

- Adairs online sales were +65.9%
- Mocka +48.6%
- Like-for-like store sales[2] were +12.4%
- Gross margins in both businesses remain elevated in line with 1H FY21

Sales, unaudited (first seven weeks of 2H FY21)	Growth over PCP [1]
Adairs stores	+12.1%
Adairs stores – Like-for-like [2]	+12.4%
Adairs online	+65.9%
Total Adairs	**+22.2%**
Mocka	+48.6%
Total Group	**+25.0%**

Notes

1. PCP: Prior corresponding period
2. Like-for-like sales growth ("LFL") has been adjusted for any store closures and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).

Outlook

Store program

- Adairs expects to open 1-2 net new stores and upsize 3-4 existing stores across Australia and New Zealand during 2H FY21

FX hedging

- The remainder of 2H FY21 is 89% hedged at A$0.71 (2H FY20 A$0.70) while 44% of our expected FY22 USD purchases are currently hedged at A$0.74

Capex

- Capex for FY21 is expected to be in the range of $13-15m with increased expenditure on new store openings, existing store refurbishments/upsizings, the National Distribution Centre and digital initiatives

Trading outlook

- COVID-19 continues to encourage spending in home improvement and home decoration, and we expect this behavior to persist whilst COVID-19 uncertainty continues
- 2H FY21 will be cycling a period of national store closures in 2H FY20
- While stock flow from China and SE Asia remains inconsistent due to international shipping disruptions our overall stock levels are now in line with our plans, which have been adapted to accommodate delays without a significant impact on our ranging or customer experience

Guidance

- While current trading remains strong, due to the ongoing uncertainty relating to COVID-19 the Board does not consider it appropriate to provide guidance for the FY21 full year at this time


QUESTIONS?

APPENDICES

1. Who are we
2. Store footprint
3. Adairs sales LFL history
4. Profit and loss reconciliation
5. Cash flow reconciliation
6. Glossary

Appendix 1 – Who we are

Adairs Limited (ASX: ADH) is Australasia's largest omni channel retailer of homewares and home furnishing products

- Own two fast growing and highly profitable businesses
- Vertical retail model
  - in-house design
  - exclusive and differentiated products
  - innovation
  - supply chain control
  - value for money and superior margins
- Omni-channel
  - larger TAM than pure-play
  - integrated channels, cross-channel synergies
  - efficient customer acquisition costs / better retention
  - data and loyalty focused
  - fast approaching A$200m p.a. in online sales
- High service, customer focused
  - Our customers expect and enjoy service to help them discover, coordinate, execute and manage their purchases

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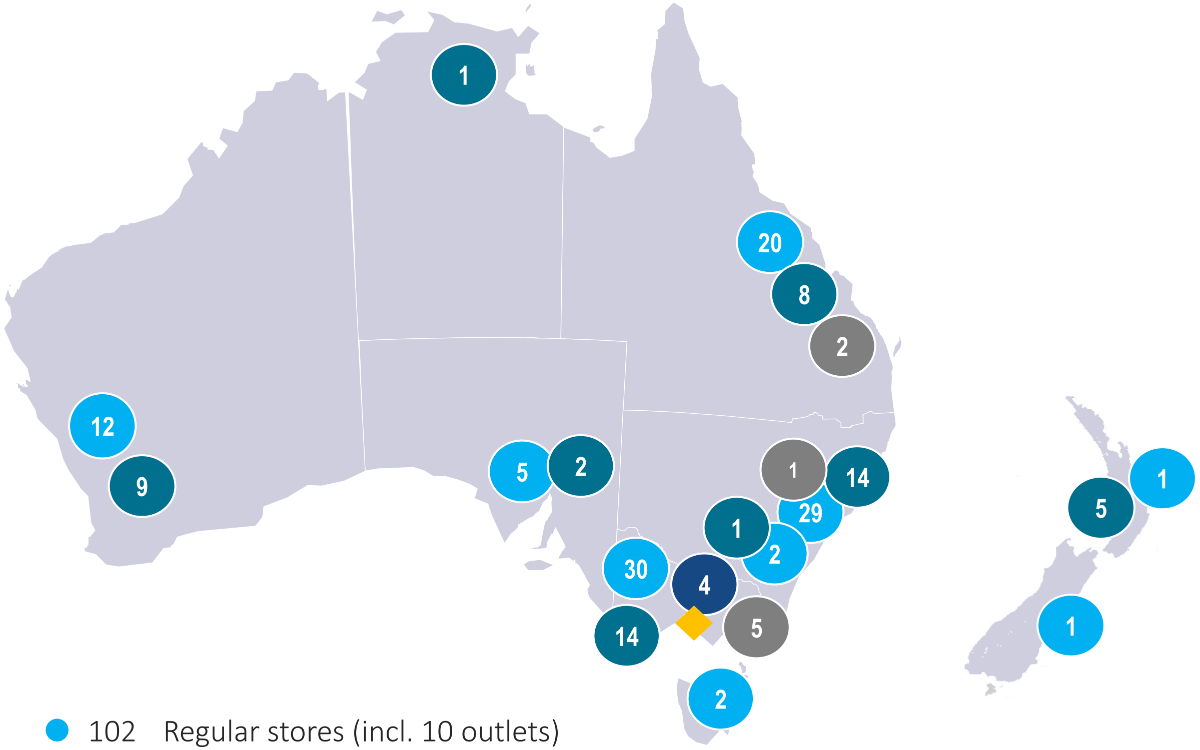
- Specialty retailer of home furnishings with a large and growing online channel and a national footprint of 168 stores across two key formats
- Strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service

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

Appendix 2 – Store footprint

Total Stores: 168



- 102 Regular stores (incl. 10 outlets)
- 54 Homemaker stores
- 8 Adairs Kids
- 4 Urban Home Republic (UHR)
- DC and Head Office

Store Activity (1H FY21)

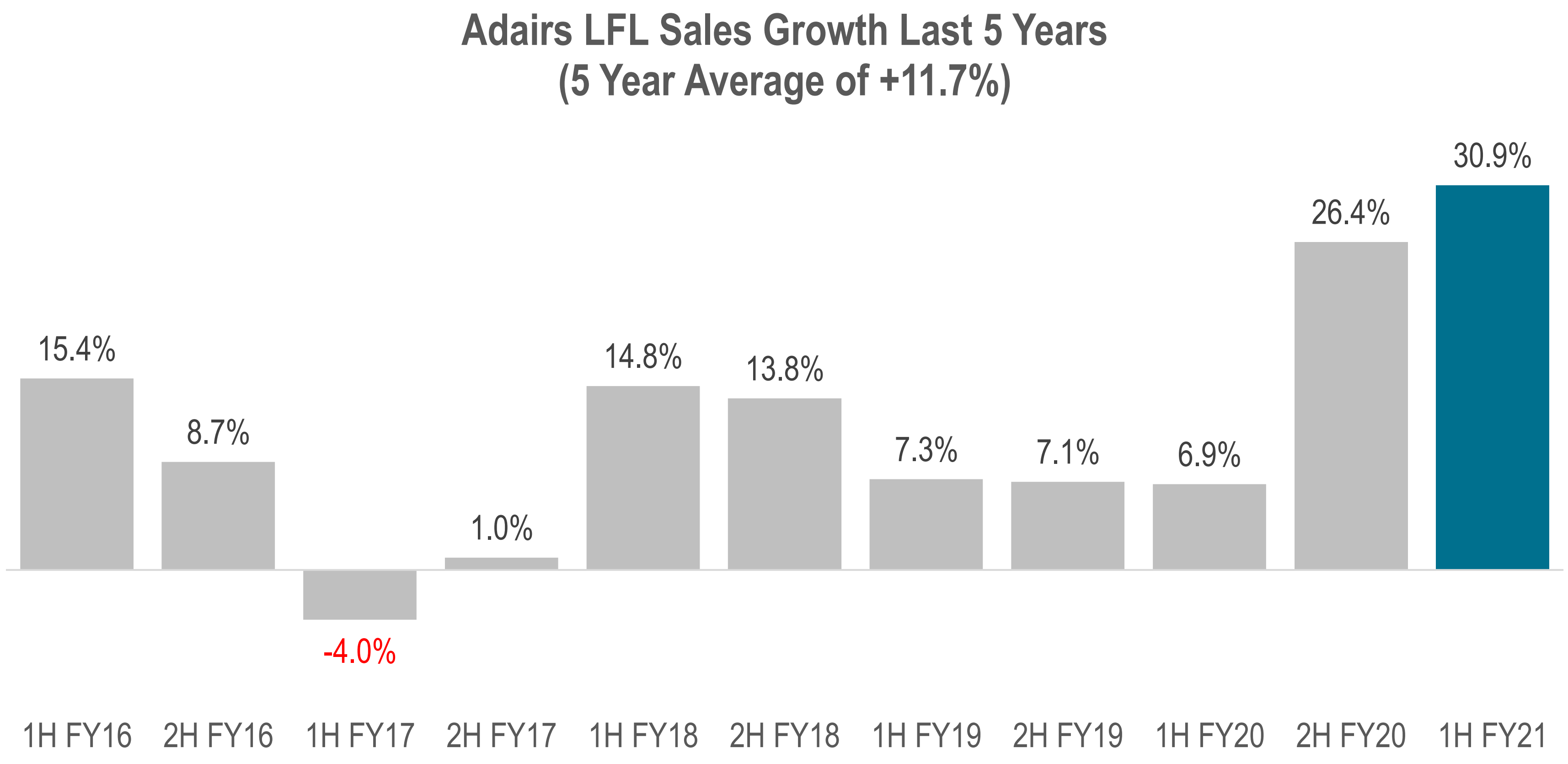
New Stores (3)	GLA (m2)
Homemaker – Belmont (WA)	752
Homemaker – Warrigul (VIC)	840
Homemaker – Botany (NZ)	713
Total GLA addition	2,305

Closed Stores (2)	GLA (m2)
Regular - Burnside (SA)	73
Kids - Bondi (NSW)	114
Total GLA reduction	187

Group GLA (30 June 2020)	61,845
Group GLA (28 December 2020)	63,963
Net Increase in GLA (m2)	2,118
Net Increase in GLA (%)	3.42%

Refurbished Stores (1)
UHR - Norwood (SA) (rebranding to Adairs)

Appendix 3 – Adairs sales LFL history



Note: The above LFL sales results do not include Mocka.

Appendix 4 – Profit and loss reconciliation

	1H FY21 reconciliation					
($ million)	Underlying 1H FY21	AASB 16 impact	JobKeeper benefit	Mocka transaction costs	NDC transition costs	Statutory 1H FY21
Sales	243.0	-	-	-	-	243.0
Gross profit	152.0	-	-	-	-	152.0
Gross Profit %	*62.5%*					*62.5%*
CODB	(86.9)	18.7	6.1	(1.3)	(0.5)	(63.9)
CODB %	*35.8%*					*26.3%*
EBITDA	65.1	18.7	6.1	(1.3)	(0.5)	88.1
EBITDA %	*26.8%*					*36.3%*
Depreciation	(4.9)	(16.9)	-	-	-	(21.8)
EBIT	60.2	1.8	6.1	(1.3)	(0.5)	66.3
EBIT %	*24.8%*					*27.3%*
Interest	(0.8)	(2.1)	-	(0.5)	-	(3.3)
Tax	(17.5)	0.1	(1.8)	-	0.1	(19.1)
NPAT	41.9	(0.2)	4.3	(1.8)	(0.3)	43.9
EPS (cents)						**25.9**

	1H FY20 reconciliation			
($ million)	Underlying 1H FY20	AASB 16 impact	Mocka transaction costs	Statutory 1H FY20
Sales	180.3	-	-	180.3
Gross profit	105.2	-	-	105.2
Gross Profit %	*58.4%*			*58.4%*
CODB	(78.7)	17.0	(2.1)	(63.8)
CODB %	*43.7%*			*35.4%*
EBITDA	26.5	17.0	(2.1)	41.4
EBITDA %	*14.7%*			*23.0%*
Depreciation	(3.9)	(15.0)	-	(18.9)
EBIT	22.6	2.0	(2.1)	22.5
EBIT %	*12.6%*			*12.5%*
Interest	(0.6)	(2.0)	-	(2.6)
Tax	(6.8)	0.0	-	(6.8)
NPAT	15.3	0.0	(2.1)	13.2
EPS (cents)				**7.9**

Notes:

1. AASB 16 impact: Upon adoption of AASB 16 from FY20, lease expenses are removed from occupancy expenses (CODB) and replaced with depreciation of lease assets and interest on lease liabilities over the relevant lease term.
2. JobKeeper benefit: JobKeeper wage subsidy benefit received in 1H FY21 to be returned to the Government. This will be repaid and recognised in the Group's financial results in 2H FY21.
3. Mocka transaction costs: Acquisition related due diligence costs (FY20) and the ongoing remuneration element of the deferred contingent consideration (including discount).
4. NDC transition costs: Costs associated with the transition to the new National Distribution Centre, including onerous lease provisions.

Appendix 5 – Cash flow reconciliation

($ million)	Underlying 1H FY21	AASB 16 impact	Statutory 1H FY21	Underlying 1H FY20
	1H FY21 reconciliation			
Opening cash	**23.9**	**-**	**23.9**	**16.7**
Operating cash flow	46.5	16.5	63.0	24.3
Investment cash flow	(3.6)	-	(3.6)	(3.8)
Financing cash flow	(44.6)	(16.5)	(61.1)	(29.0)
Net cash flow	**(1.7)**	**-**	**(1.7)**	**(8.5)**
Proceeds from borrowings - Mocka acquisition	-	-	-	48.0
Acquisition net of cash acquired (inc. transaction costs)	-	-	-	(49.5)
Net cash flow (with Mocka acquisition)	**(1.7)**	**-**	**(1.7)**	**(10.0)**
Foreign exchange difference	(0.1)	-	(0.1)	-
Closing cash	**22.1**	**-**	**22.1**	**6.7**

Notes:

1. AASB 16 impact: The impact of AASB 16 (Leases) results in a reclassification of cash flows between operating and financing activities with no change in net cash flow.
2. Underlying operating cash flow for 1H FY20 includes the trading results of Mocka for the 4 weeks post acquisition in December 2019.

Appendix 6 – Glossary

Term	Meaning
ASP	Average Selling Price
ATV	Average Transaction Value
CODB	Cost of Doing Business
DC	Distribution Centre
GLA	Gross Lettable Area (in square metres - excludes any offsite storage a store may have)
IPS	Items Per Sale
LTM	Last Twelve Months
NDC	National Distribution Centre
Online contribution	Online Gross Profit (including all online distribution costs) less customer support wages/rent and marketing (other than in-store marketing)
Stores contribution	Stores Gross Profit less store labour costs, store rents and in-store marketing
TAM	Total Addressable Market
Unallocated overheads	Executive team and other head office labour costs, product design and development, warehousing

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Disclaimer

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

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

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