

Adairs Limited

Acquisition of Focus on Furniture Investor Presentation

25 November 2021



Adairs has agreed to purchase Focus on Furniture, a vertically integrated omni-channel furniture designer and retailer operating in Australia.

Transaction	<ul style="list-style-type: none"> Adairs has agreed to acquire 100% of Focus on Furniture ("Focus") for an Enterprise Value of \$80m on a debt free basis Consideration comprises cash (\$74m) and Adairs shares (\$6m) issued to the majority shareholder and Focus CEO, Rob Santalucia Focus will continue to operate independently of the Adairs business, with its existing management team continuing under new contracts
Strategic rationale	<ul style="list-style-type: none"> Strategic fit for Adairs within the Home category, with attractive growth potential: <ul style="list-style-type: none"> Strongly profitable furniture retailer with revenue of \$150m+ in Australia (FY21) through a network of 23 stores and a small but growing online channel Growth opportunities across store roll out, online growth and category/range expansion Vertically integrated, omni channel furniture and bedding retailer, operating in close adjacency to Adairs' existing businesses Complementary customer/product overlap; opportunities to leverage strengths in store expansion, product development and last mile delivery capability Significant operating infrastructure, management experience, store and supplier network, passionate team and established brand Increases the Group's exposure to the bulky furniture category (an \$8.3b+ market) Established operating infrastructure, capable management team, supplier base and store network from which to build out a national omni-channel business Further develops the Group as a leading homewares and home furnishings omni-channel retail group operating across Australia and New Zealand
Funding	<ul style="list-style-type: none"> Consideration of \$80m to be funded through: <ul style="list-style-type: none"> \$74m of debt (new and existing facilities) a placement of c.1.71m Adairs shares (~1.0% of ADH) to Rob Santalucia at \$3.51 per share (\$6m), escrowed until the release of Adairs' FY23 results Increased facilities expected to remain comfortably within existing covenants; leverage ratio to remain below 1.2x Effective from 1 December 2021
Acquisition metrics and financial impact	<ul style="list-style-type: none"> Equates to an EV/EBIT multiple of 2.4x FY21 actual EBIT (\$32.8m) The acquisition is expected to: <ul style="list-style-type: none"> be immediately EPS accretive deliver pro-forma double-digit EPS accretion¹ in FY23 (first full year of ownership) and beyond No change to Adairs' dividend payout policy (65%-80% of net profit after tax)

Notes:

1. Based on Adairs assessment of Focus' FY23 contribution and current Adairs Group FY23 business plan (pre-AASB 16 adjustments).

Focus is a vertically integrated, omni-channel furniture and bedding retailer targeting the Australian middle market.

Overview

- Omni-channel retailer operating 23 stores with a small but growing online channel
- Offers a collection of well designed, functional and on trend home furniture and bedding
- Vertically integrated
 - All product design and development done in-house (Melbourne)
 - Long-standing manufacturer/supplier relationships (SE Asia)
- Targeting 'on trend' middle market customers who focus on quality at a good price
- Head Office and main warehouse in Melbourne, with smaller supporting warehouses in Sydney and Adelaide

Sales and EBIT

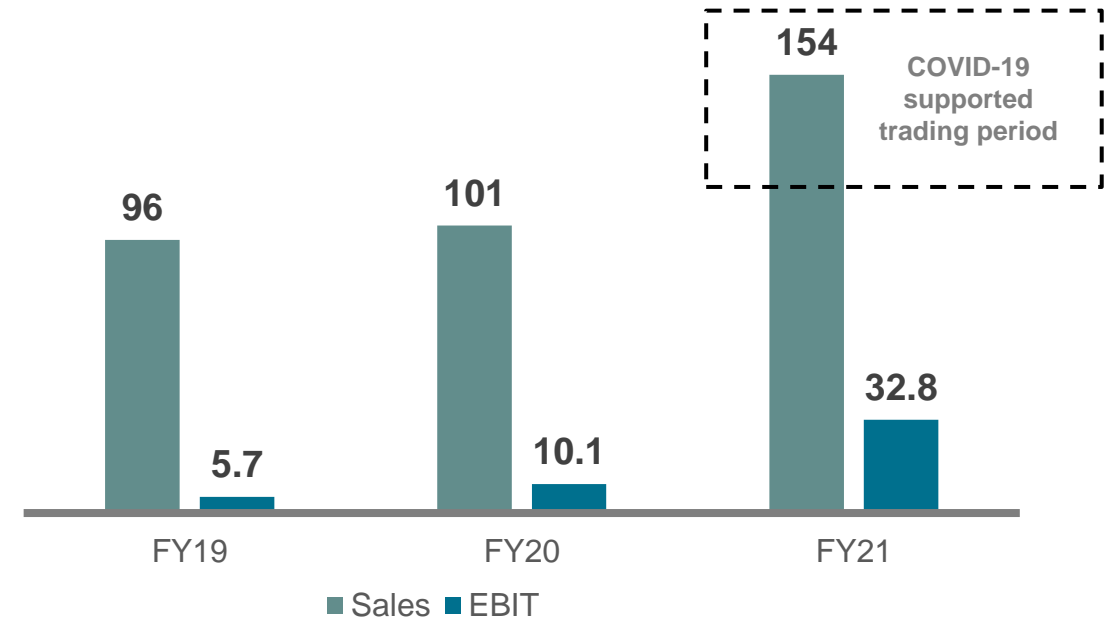
- Focus has a solid sales and profit track record
- FY21 saw a 52% increase in sales and 325% increase in EBIT over FY20 driven by Focus capitalizing on the impact of COVID-19
- Adairs estimate that a sustainable earnings base for FY21 after normalizing for the impact of COVID-19 to be sales of ~\$125 million and EBIT of approximately \$12-14 million (pre-AASB 16)

Notes:

1. After normalizing for the impact of COVID-19



Historic Sales and EBIT (FY19-FY21)



Source: Focus, Adairs

Estimated sustainable FY21 earnings base¹ of ~\$125 million and EBIT of approximately \$12-14 million (pre-AASB 16)

The Focus business model is a strong strategic fit with Adairs. The acquisition expands the Group's presence in home furniture, transforming the Group into a broader portfolio of attractive businesses all targeting the Australian home furnishings and furniture middle market.

Business model alignment

Adairs Group brand principles



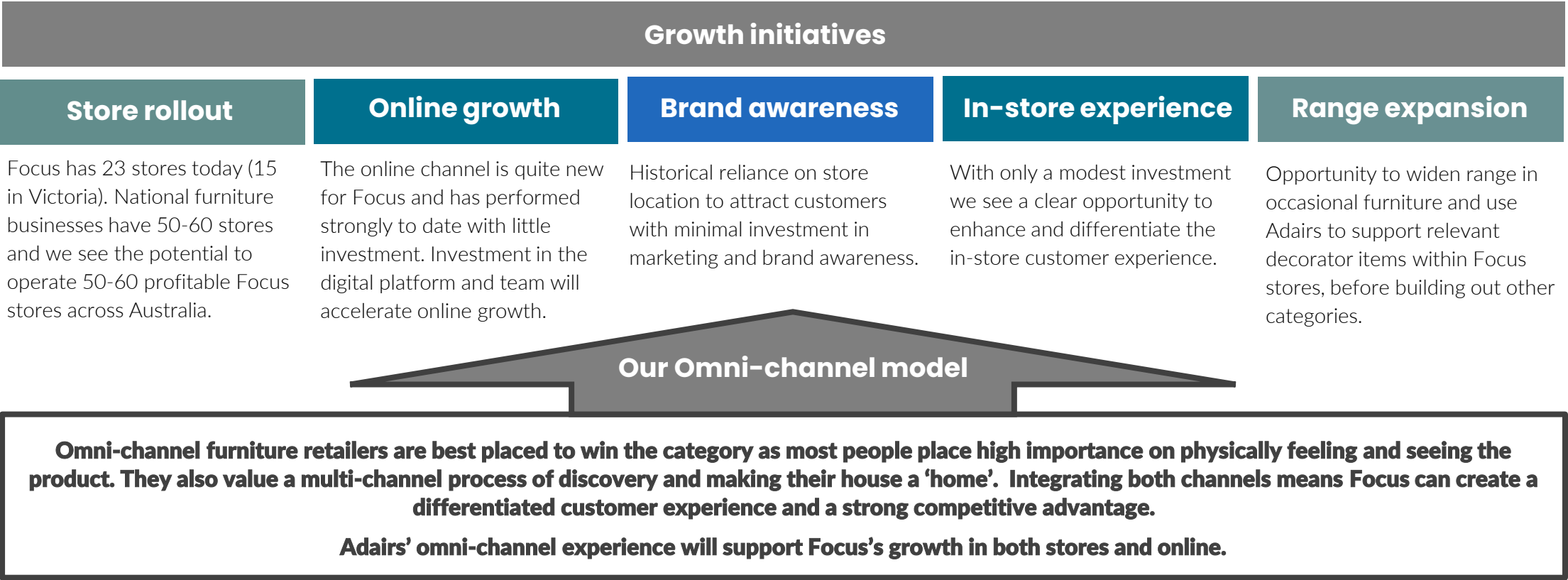
Direct to consumer brand via owned channels	Focus deals direct with consumers exclusively through its own channels
Omni-channel	Focus operates 23 retail stores with a small but growing online channel
Vertical supply chain model	Focus controls its entire product lifecycle which allows it to offer a value for money proposition while retaining strong margins
In-house design and development of exclusive and differentiated products	Majority of products are designed and sourced by Focus.
High service, customer focused	Customer-centric culture and store environment
Quality on-trend everyday product at great value	Well designed quality product at reasonable prices for all Australians
Majority ownership and control	Adairs will have 100% ownership and control from Day 1



Focus has an attractive growth profile supported by a clear set of initiatives. We see potential sales of \$250m+ within 5 years.

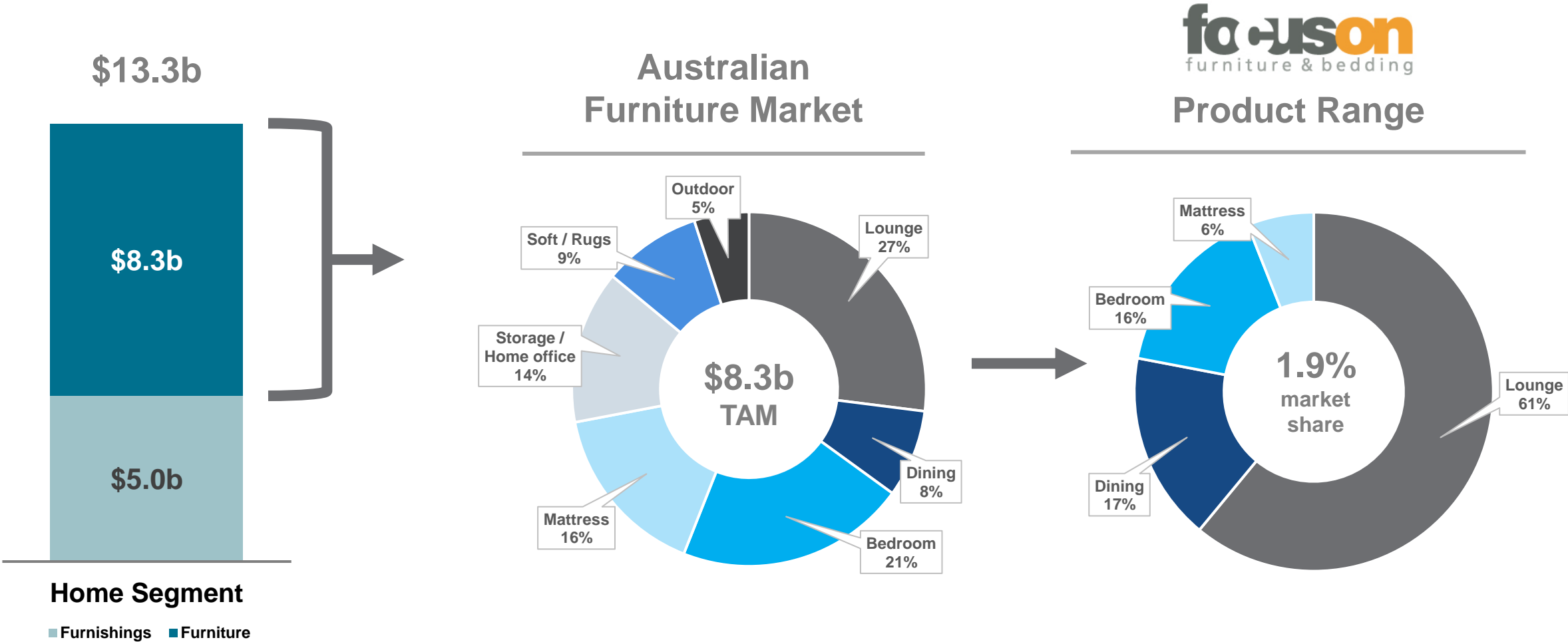
Large market

The Australian home furniture market is c.\$8.3b.
Focus is a small player in a large market with significant opportunities for growth driven by an omni channel approach



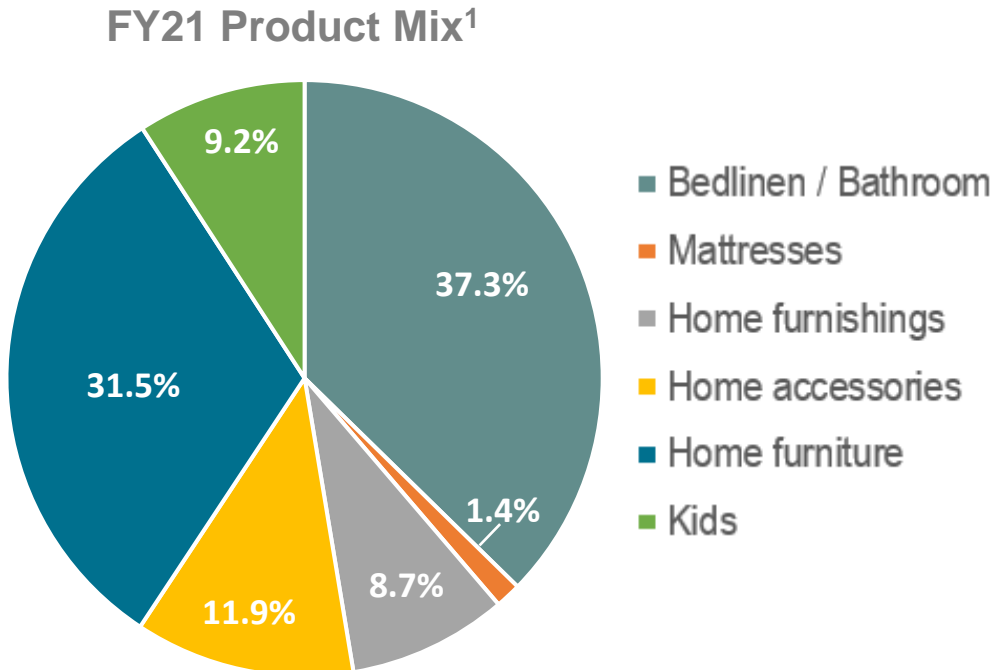
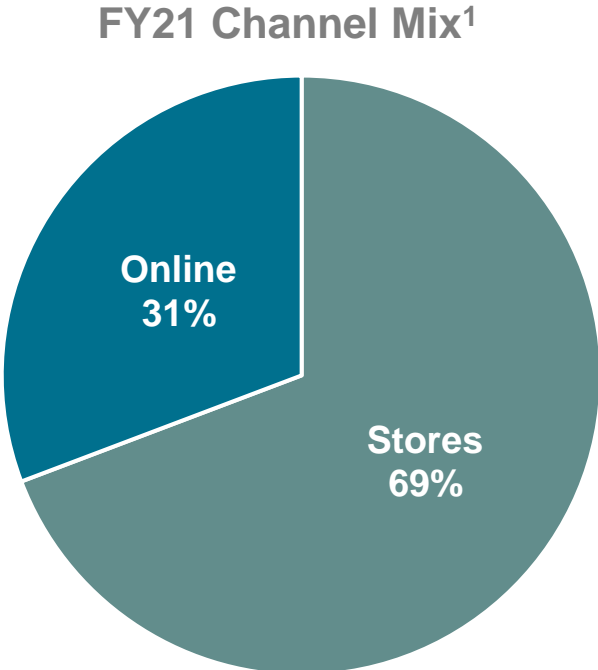
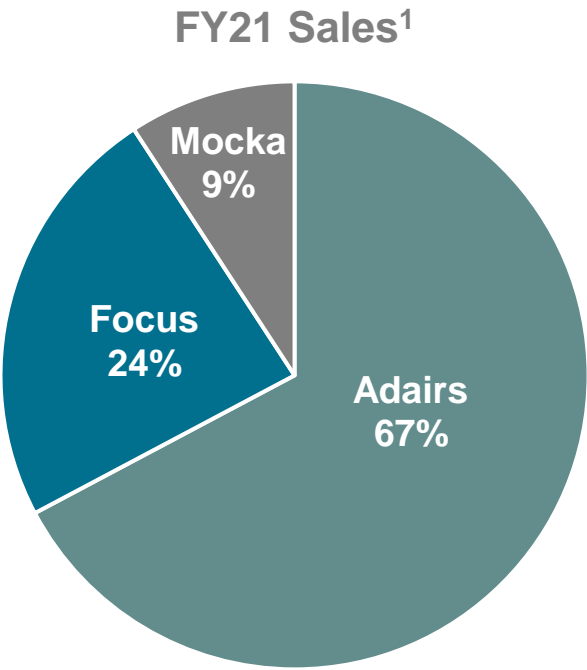
Large market with category growth opportunities

The Australian home furniture TAM is c.\$8.3b. Focus is a small player targeting the key middle market home furniture categories – Lounge, Bedroom and Dining – with clear opportunities for range expansion (e.g. Outdoor, Home Office, Storage).



Source: IBISWorld, Focus, independent experts

Adairs Group			
Total Addressable Market (TAM) \$13.3 billion	Pro-forma FY21 Sales¹ \$654 million	Pro-forma FY21 Online Sales¹ \$201 million	Stores 192 (all profitable)



Note 1: Amalgamation of the actual FY21 results for Adairs, Mocka and Focus.

Acquisition of 100% of the shares in Focus on an EV/EBIT multiple of 2.4x FY21 actual EBIT (\$32.8m) with immediate EPS accretion (no synergies assumed).

Transaction structure and funding

- Acquisition of 100% of the shares in Focus effective from 1 December 2021
- Consideration of \$80.0m including \$5m of cash to stay within Focus to be funded as follows:

Sources	A\$m
New 3-year term debt facility (Nov 2024 expiry)	45.0
Existing debt facility (Jul 2023 expiry)	29.0
Placement of Adairs shares to CEO, Rob Santalucia	6.0
Adairs cash reserves	1.0
Total	81.0

Uses	A\$m
Acquisition	80.0
Transaction costs (approx.)	1.0
Total	81.0

- Increased facilities remain comfortably within existing covenants and retain sufficient head room for unexpected changes in the general macro environment or business performance

Financial impact on Adairs

- Without assuming any synergies, the acquisition is expected to:
 - be immediately EPS accretive
 - deliver pro forma double-digit EPS accretion in FY23 ¹ (first full year of ownership)
- No change to Adairs' dividend payout policy (65%-80% of net profit after tax)

Potential synergies

While Adairs will run Focus independently to maximise its growth potential there exist potential synergy benefits that have not been quantified or included in our financial plans. These could include:

- shared distribution infrastructure for furniture and bulky goods providing an improved and more efficient customer experience across all brands
- shared operational infrastructure and support such as photo studios, leasing, IT, finance and treasury
- greater access to a large and established offshore supplier base
- scale benefits across suppliers with increased order volumes / lower unit costs
- shared market insights regarding product trends and operations
- potential reduction in third-party costs (e.g. BNPL fees, freight, 3PL etc.)
- cross product synergies (e.g. Adairs can provide complementary accessories and other home décor and furnishings without the need for Focus to develop this product themselves)

Notes:

1. Based on Adairs assessment of Focus' FY23 contribution and current Adairs Group FY23 business plan (pre-AASB 16 adjustments).



Highly profitable business with excellent growth potential acquired for \$80 million

- acquisition multiple of 2.4x FY21 EBIT
- double-digit EPS accretion in FY23 (first full year of ownership)



Adairs Group is well positioned to support and accelerate the growth strategies of Focus



Adairs Group evolves to operate three attractive businesses, all with vertically integrated business models, attractive economics and large addressable markets in Australia and New Zealand



Long-term growth of Focus to be driven by:

- | | |
|------------------------------------|------------------------------------|
| 1 National store rollout | 4 Enhanced store experience |
| 2 Online growth | 5 Range expansion |
| 3 Increased brand awareness | |



This will be a significant value adding acquisition for Adairs Limited shareholders
Adairs is excited to welcome the Focus on Furniture team to the Adairs Group family



Appendices

1. Store network map
2. Store network growth potential
3. Product overview

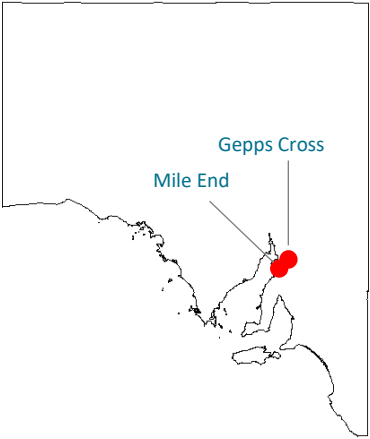
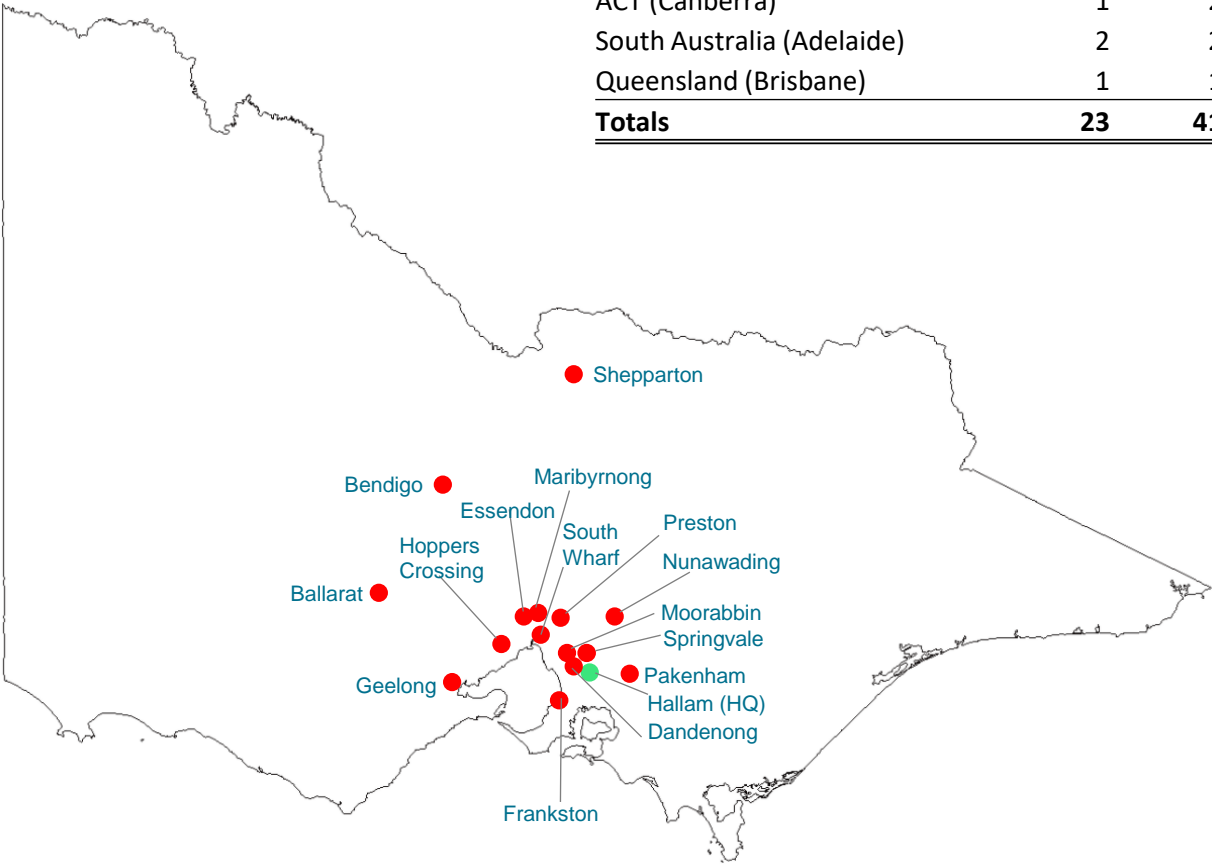


Appendix 1 - Store network

Network of 23 stores, predominantly in Victoria. Typical store size is 1,500-2,000 square metres.



State / Territory	Stores	GLA m2
Victoria (Greater Melbourne)	11	17,647
Victoria (Regional)	4	8,079
NSW (Greater Sydney)	1	3,365
NSW (Regional)	3	5,376
ACT (Canberra)	1	2,125
South Australia (Adelaide)	2	2,714
Queensland (Brisbane)	1	1,712
Totals	23	41,018



Appendix 2 - Store network growth potential

Focus has 23 stores today. National furniture businesses have 50-60 stores (Adairs has over 50 homemaker stores). We believe there is the potential to operate a network of 50-60 profitable Focus stores across Australia.

- Adairs existing property team will identify sites and negotiate terms
- Initial focus for new store opportunities will be in NSW and Queensland
 - NSW will leverage the existing Focus warehouses in NSW
 - Queensland warehouse to be established to support more Queensland stores
- Expect 4-5 new stores per year
- Average new store sales ~\$3-5m pa

State / Territory	Focus furniture & bedding	National retail furniture competitors						
		Nick Scali	Plush ¹	Harvey Norman	Amart Furniture	Fantastic Furniture	Freedom	Early Settler
Victoria	15	14	14	45	15	17	12	18
NSW	4	20	15	56	17	33	13	13
Queensland	1	15	9	44	21	17	10	16
South Australia	2	4	3	11	3	5	3	1
Tasmania	0	1	0	7	1	2	1	0
Western Australia	0	7	4	27	8	7	6	3
ACT	1	1	2	2	1	2	1	1
NT	0	0	0	2	1	1	0	0
Totals	23	62	47	194	67	84	46	52

1. Owned by Nick Scali but operated independently.









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.