Release to the Australian Securities Exchange

Adairs Limited
1H FY22 Trading Update

24 January 2022

Adairs Limited (ASX: ADH)

Adairs today provides a trading update in relation to its expected 1H FY22 financial results (unaudited), in advance of the lodgement of its 1H FY22 results on 21 February 2022. This update is based on unaudited management accounts and other information for the 26 weeks ending 26 December 2021.

1H FY22 (unaudited results) overview

- Group sales of $242 million, including a $12.5 million contribution from Focus on Furniture ("Focus") for its 26 days of ownership
  - Compares to $243.0 million in 1H FY21, and $180.3 million in 1H FY20[1]
  - Group LFL[2] sales +2.7% (adjusting for store closures, and excluding Focus)
  - Group online sales (excluding Focus) +8.2% to $97.6 million; (42.5% of Group Sales)
  - Adairs online sales +1.6% and Mocka +22.8%
- Underlying[3] EBIT is expected to finalise in the range of c.$32.0-$33.0 million (including a c.$2.8 million contribution from Focus), which compares to $60.2 million in 1H of FY21, and $22.6 million in 1H of FY20.

Sales growth	**Current period comparatives**		**Prior Periods**	
First 26 weeks (unaudited)	**FY22 v FY21**	**FY22 v FY20**	**FY21 v FY20**	**FY20 v FY19**
Total Group	(0.5%)	34.1%	34.8%	9.7%
Total Group (like-for-like)	2.7%	30.5%	32.4%	6.9%
Breakdown:				
Adairs Stores	(13.8%)	(9.8%)	4.6%	4.2%
Adairs Stores (like-for-like)	(3.4%)	7.3%	14.4%	2.4%
Adairs Online	1.6%	98.3%	95.2%	31.4%
Total Adairs (like for like)	(0.4%)	30.5%	30.9%	6.9%
Mocka[4]	22.8%	77.2%	44.4%	11.0%

[1] FY21 and FY20 excludes Focus on Furniture (acquired 1 December 2021); FY20 includes Mocka for the period from 1 December 2019.
[2] Like-for-like sales growth ("LFL") excludes Focus and Mocka outside of Group ownership and has been adjusted for any store closures. It is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).
[3] Excludes the impact of (i) AASB 16; (ii) one-off costs associated with the transition to the new National Distribution Centre, (iii) Focus and Mocka related acquisition costs (including earn-out related adjustments), and (iv) the net JobKeeper wage subsidy benefit received in 1H FY21 and returned to Government in 2H FY21.
[4] Includes the period prior to December 2019 which is outside of Adairs Group ownership.

Commentary

The most significant factor impacting Adairs total sales in the period was the government mandated store closures which reduced the overall number of store trading days by c.31%, with NSW (c.50%) and Victoria (c.48%) the states most significantly impacted. Management estimate that COVID-related store closures reduced Adairs sales in the half by c.$30-36 million and EBIT by c.$14-$18 million.

Gross margin has been impacted by global supply chain cost increases, higher delivery costs to online customers and additional promotional activity. Whilst gross margin will be below 1H FY21 as expected, it remains well ahead of 1H FY20 which was prior to the pandemic.

The Group's cost of doing business (CODB) will be elevated in 1H FY22 reflecting:

- Lower levels of rent rebates in 1H FY22 leading to higher occupancy costs – rent rebates for store closure periods continue to be negotiated with landlords
- Higher salary and wages costs to support our store teams during periods of store closures, whereas in 1H FY21 JobKeeper provided significant support in this regard
- Higher warehouse costs following the decision to retain one of the Adairs DC's and slow down the transition to a single National DC whilst COVID uncertainty was disrupting warehouse operations
- Continued investments in team, marketing and digital initiatives across Adairs and Mocka to drive future growth

Stock flow into Australia and New Zealand from Asia remains inconsistent due to factory and shipping capacity disruptions across the region. Inventory was well managed in anticipation of these challenges, however there were significant disruptions to our domestic supply chain. The initial issues with the new National Distribution Centre were significant and combined with ongoing workforce shortages, within our own operations and those of our supply chain partners, significantly impacted our online and store delivery capacity. Whilst delivery capacity remains constrained, this continues to improve and there is high availability of product in our distribution centres and stores across all brands going into 2H FY22.

Focus has traded well across the half despite significant store closures in Q1, and this has continued in the short period post acquisition by Adairs, which was effective from 1 December 2021. Its' 26-day post-acquisition contribution delivered sales of $12.5 million, including $1.6 million (or 12.7%) from its online channel.

The Group finished 1H FY22 with net debt of $90.9m, including $120.0 million in drawn debt and $29.1m of cash on hand, following the acquisition of Focus (cash outflow of A$61.5 million) and the final payment to the Mocka founders (A$45.7m million) in the half.

Speaking on the trading update Mark Ronan, CEO and Managing Director, said:

"During the half, despite significant operational disruptions, we have made strides in progressing our strategic priorities by commissioning our new National Distribution Centre, upsizing selected stores, continuing to expand our range and adding to our omni channel capabilities. We also built our portfolio of vertical omni-channel retail brands by bringing forward the finalisation of the Mocka acquisition, and completing the acquisition of Focus on Furniture. The progress we've made against these priorities gives us confidence in the growth prospects of the Group."

Adairs Limited is scheduled to release its half year results on 21 February 2021.

ENDS

This announcement has been approved by the Board of Adairs Limited.

Contact:

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

About Adairs Limited
Adairs Limited is Australia's largest omni channel specialty retailer of home furnishings, home furniture and home decoration products. We own and operate three vertically integrated brands in the Home category – Adairs, Mocka and Focus on Furniture. All brands are design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand.

Adairs head office is in Melbourne, Australia.

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

About Adairs
Adairs is a leading specialty retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of formats and a large and growing online channel. Adairs strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service.

For further information visit **www.adairs.com.au**

About Mocka
Mocka is a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand. Mocka sells its own exclusive, well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories. Delivering great product and compelling everyday value-for-money is core to the Mocka customer proposition.

For further information visit **www.mocka.com.au**

About Focus on Furniture
Focus on Furniture ('Focus') is a vertically integrated omni-channel furniture and bedding retailer offering well designed, functional and on-trend products at great value for money through its network of stores in Australia and its online channel. Focus is characterised by its attention to customer service, support, product quality and range.

For further information visit ***www.focusonfurniture.com.au***