

# Release to the Australian Securities Exchange

# Adairs Limited First half results for FY22

## 21 February 2022

### Adairs Limited (ASX: ADH)

Adairs today released its results for the 26 weeks to 26 December 2021 (1H FY22).

The Group continued to build the foundations for future growth across its portfolio of brands with a number of strategic initiatives implemented in the half including the acquisition of Focus on Furniture ("Focus"). While the Group's financial performance in the half was significantly impacted by COVID related disruptions across our operations, these should not be recurring in the medium term and the underlying business continues to perform well.

# 1H FY22 financial snapshot¹ (compared to prior corresponding periods):

- Group sales of \$241.8 million (including a \$12.5m contribution from Focus<sup>2</sup>) -0.5% on 1H FY21 and +34.1% on 1H FY20<sup>3</sup>.
- Group LFL<sup>4</sup> sales +2.7% (excluding Focus).
- Group online sales (excluding Focus) +8.2% to \$97.6 million, contributing 42.6% of Group Sales.
- Underlying<sup>5</sup> EBIT of \$32.9 million (including a c.\$2.9 million contribution from Focus), which compares to \$60.2 million in 1H FY21, and \$22.6 million in 1H FY20.
- Statutory NPAT of \$17.6 million and EPS 10.4 cps.
- Net debt of \$89.6 million following the acquisition of Focus (cash outflow of \$61.5 million) and the final payment to the Mocka founders (A\$45.7m million) in the half.
- Interim dividend of 8.0 cents per share (fully franked) declared and DRP activated.

## 1H FY22 non-financial highlights:

- Adairs store floorspace (GLA, square metres) up +3.8% (+8.6% in last 12 months).
- Linen Lover membership approaching 1 million customers (+10% in last 12 months).
- Acquisition of Focus on Furniture, effective from 1 December 2021.
- National Distribution Centre operational.
- Mocka earn-out finalised and new CEO appointed.

<sup>&</sup>lt;sup>1</sup> See Appendix 5 of the Investor Presentation for a reconciliation of statutory and underlying results.

<sup>&</sup>lt;sup>2</sup> The Focus on Furniture acquisition was effective 1 Dec 2021. The Group result reflects only its 26 days of ownership.

<sup>&</sup>lt;sup>3</sup> FY21 and FY20 excludes Focus on Furniture; FY20 includes Mocka for the period from 1 Dec 2019.

<sup>&</sup>lt;sup>4</sup> 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).

<sup>&</sup>lt;sup>5</sup> 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.



Commenting on the 1H FY22 results Managing Director and CEO, Mark Ronan, said:

"The first half of FY22 brought significant one-off operational disruptions related to COVID-19 which impacted our portfolio of brands and our overall financial results. Despite this we continued to progress our strategic priorities with Adairs' National Distribution Centre commencing operations, two new stores opened, four stores upsized, continuing range expansion with pleasing results and continued investment in digital capabilities.

The finalisation of the Mocka earn-out allowed us to build out our team to support our growth strategies and we added to our portfolio of vertical omni-channel retail brands by acquiring Focus on Furniture. With all brands having strong opportunities for growth, and all benefiting from good incountry inventory levels, we are confident about the prospects for the Group in 2H FY22 and beyond."

## **Brand performance**

#### **Adairs**

The Adairs result for the half was significantly impacted by the government mandated store closures with store sales -13.8% to \$131.7 million. Despite the store closures, Adairs' total sales for the half of \$194.9 million remains almost +10% above 1H FY20 levels as a result of continued growth in online sales to \$63.2 million (almost double that achieved in 1H FY20). Management estimate that COVID-19 related store closures, which impacted c.31% of total trading days in the half, reduced sales by c.\$35 million.

As anticipated, gross margin softened in 1H FY22 against 1H FY21 (-380 bps) however remains significantly above 1H FY20 levels (+320 bps). Gross margin was impacted by global supply chain cost increases, higher delivery costs to online customers and a measured increase in promotional activity.

Linen Lover Club membership continues to grow strongly (+10% over the last 12 months) and is now approaching 1 million members. These are the most engaged customers and account for c.80% of all sales. Adairs can look to individually tailor offers to them based upon their historic purchases and preferred channel.

Two new stores opened, four stores were upsized and the Robina and Robina Kids stores were merged into one new, larger store. Gross Lettable Area (GLA) increased by +3.8% during the half and has increased by +8.6% over the last 12 months.

Adairs' cost of doing business (CODB) was 9.6% higher than 1H FY21 reflecting:

- Lower levels of rent rebates in 1H FY22 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 which was not supported by Job Keeper wage subsidies in 1H FY22 as it was in 1H FY21.
- Higher warehouse costs following the decision to retain one Adairs warehouse and slow down the transition to the single National Distribution Centre whilst COVID uncertainty was disrupting warehouse and supply chain operations; and
- Continued investments in team, marketing, and digital initiatives to drive future growth.



A number of these costs were related to managing the business through COVID-19 and should not be recurring in the medium term.

The store closures combined with the CODB increases saw Adairs underlying EBIT -54.2% to \$24.4 million. Management estimate that the EBIT impact associated with COVID store closures and incremental supply chain costs was c.\$17.5 million.

#### Mocka

Mocka sales in the half were +22.8% to \$34.3 million, with strong growth in both Australia and New Zealand underpinned by growth in website traffic and search activity.

Operations in Australia in Q2 were significantly impacted by COVID-19 related customer delivery challenges. A new delivery partner has since been appointed and these issues have been resolved.

Higher import freight costs, courier delays and more promotional activity, resulted in a decline in delivered gross profit margin (including customer postage) to 38.3% (42.3% in 1H FY21).

Continued planned investments in team and marketing to drive strategic growth, as well as increased warehousing requirements to support necessary inventory holdings, led to higher CODB during the half.

The appointment of Vanessa Brennan as CEO from September 2021 facilitated a smooth exit for the founders and the early payment of their final earn-out amount. This has laid the foundation for the necessary investments in the short term to deliver the long-term growth potential of Mocka.

Mocka contributed an EBIT of \$5.7 million in the first half, down -19.3% on the same period last year. The COVID-19 supply chain disruptions in Australia are estimated to have reduced sales by \$2.6 million and EBIT by \$1.4 million during the half.

### Focus on Furniture

In November 2021, Adairs announced the acquisition of Focus on Furniture, a highly profitable vertically integrated omni-channel furniture retailer operating in Australia. The consideration paid represented an enterprise value of \$80 million on a debt-free basis and is expected to deliver double-digit EPS accretion from FY23 (its first full year of ownership).

Strategically the acquisition increases the Group's exposure to the bulky furniture category (an \$8.3 billion+ market) with clear growth opportunities for the brand through store roll-out (c. +30 stores), online growth and category/range expansion. Focus has a complementary customer/product overlap with the Group's existing businesses and provides opportunities to leverage skills and assets.

Focus has traded well across 1H FY22 despite significant store closures, and this has continued in the short period post-acquisition by Adairs (effective from 1 December 2021). Focus delivered sales of \$12.5 million and EBIT of \$2.9 million for the 26-day contribution period and is well positioned to perform strongly in 2H FY22 with a closing order book of \$23 million at the end of 1H FY22 supported by a strong available inventory position.



#### **National Distribution Centre**

Construction of the National Distribution Centre (NDC) in Melbourne was completed in early August 2021, approximately 3 months later than originally planned due to COVID related construction delays. Inventory from three of the four Adairs warehouses (c 45% of SKU's) was transferred to the NDC and operations at the NDC commenced in September. However, due to escalating COVID risk at the time in the west of Melbourne, management elected to pause the transition and retain the Moorabbin warehouse operations until the end of FY22. This decision has resulted in higher warehouse costs in FY22 but was a necessary risk mitigation strategy given the uncertainty associated with COVID during 1H FY22.

The NDC transition issues experienced in 1H FY22 are temporary. The NDC remains a key component of Adairs' integrated omni supply chain strategy to better enable customers to shop Adairs how, where and when they choose. The new facility has the capacity and flexibility to support business growth well into the future across all channels. Consolidating multiple distribution centre operations into a single national facility will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods, at a lower cost.

## **Cashflow and balance sheet**

The Group generated operating cash flows of \$13.3m (including lease payments) after rebuilding inventory across the business. Net cash outflow from the Focus acquisition totaled \$62.8 million (of which \$1.3 million will be paid in February 2022 as part of the working capital true-up) and the final Mocka earn-out payment of \$45.7 million was paid in September 2021.

Group net debt was \$89.6 million, with \$120.0 million in drawn debt. The Group has total finance facilities of \$135 million available until March 2023 (\$90 million) and January 2025 (\$45 million) with no remaining payments related to the Mocka and Focus acquisitions.

## **Trading update**

The first seven weeks of 2H FY22 have seen continued online growth (both Adairs and Mocka) despite cycling record growth rates in the prior corresponding period. Store sales softened as consumers limit their discretionary outings in response to concerns around the COVID-19 Omicron-variant.

| Sales, unaudited<br>(first 7 weeks of 2H) | Current period comparatives |             |
|---|-----------------------------|-------------|
|   | FY22 v FY21                 | FY22 v FY20 |
| Group                                     | 33.8%                       | 68.4%       |
| Group (LFL1)                              | (0.3%)                      | 26.8%       |
| Adairs Stores                             | (1.8%)                      | 10.0%       |
| Adairs Stores (LFL1)                      | (7.5%)                      | 4.3%        |
| Adairs Online                             | 9.7%                        | 82.0%       |
| Total Adairs (LFL1)                       | (2.9%)                      | 19.9%       |
| Mocka <sup>2</sup>                        | 14.8%                       | 77.8%       |
| Focus <sup>2</sup>                        | (7.3%)                      | 15.1%       |

**Note 1:** Like for like sales growth has been adjusted for all store closures, including when due to COVID-19, 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 2:Includes periods prior to Adairs Group ownership (Mocka acquired December 2019 and Focus acquired December 2021).



#### Outlook

All Group brands have good in-country stock levels and clear opportunities for growth through 2H FY22. The macro-economic environment is supportive with strong employment and emerging wages growth. Subject to no materially adverse COVID-19 developments occurring management are confident about the prospects for the Group in 2H FY22 and beyond.

Due to the ongoing uncertainty relating to COVID-19 and the uncertain operating environment the Board does not consider it appropriate to provide guidance for the FY22 full year at this time.

#### **Interim Dividend**

Given the underlying NPAT achieved in 1H FY22 and having regard to the prevailing trading environment, the Board has declared an interim fully franked dividend of 8.0 cents per share. The Record Date for the dividend will be 22 March 2022 with payment on 14 April 2022.

#### **Activation of Dividend Reinvestment Plan**

In response to shareholder feedback, Adairs has today announced that its Dividend Reinvestment Plan (DRP) will be activated with effect from (and including) the FY22 interim dividend. For the FY22 interim dividend the Board has determined that:

- the Pricing Period used to determine the DRP Allocation Price shall be the five (5) trading days commencing on the second Business Day immediately following the Dividend Record Date;
- a 1.5% discount to the Average Market Price will apply in setting the DRP Allocation Price; and
- DRP shares will be sourced via an issue of new ordinary shares by Adairs Limited.

In accordance with ASX Listing Rule 3.10.8, a DRP Information Booklet (which includes a copy of the updated DRP Rules adopted by the Board) has been lodged with the ASX today and can be viewed on the Adairs Investor Relations website (http://investors.adairs.com.au/investors/).

Shareholders should read the DRP Rules carefully before deciding whether to participate in the DRP.

DRP Election Forms will be sent to shareholders in the next seven days with instructions on how to participate in the DRP should they wish to do so. DRP elections must be received by no later than 5pm (Melbourne time) on Wednesday 23 March 2021 to be effective for the FY22 interim dividend.

Questions in relation to the Dividend Reinvestment Plan should be directed to the Adairs share registry provider, Link Market Services, by phone on 1300 554 474 (within Australia) or +61 1300 554 474 (if outside Australia) or via email on registrars@linkmarketservices.com.au



#### **Conference Call**

As previously announced, a conference call for investors and analysts to discuss this announcement, hosted by Mark Ronan (Managing Director and Chief Executive Officer) and Ashley Gardner (Chief Financial Officer), will be held at 11.00am (Melbourne time) today.

Anyone wishing to listen to the call are required to pre-register which can be done by clicking on the link below. You will be given a unique pin number to enter when you call which will bypass the operator and give you immediate access to the briefing.

## Pre-register for call (click here)

This call will be recorded and made subsequently available on the Adairs Investor Relations website (<a href="http://investors.adairs.com.au/investors/">http://investors.adairs.com.au/investors/</a>).

## **ENDS**

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

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### **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 through our own channels in Australia and New Zealand.

Adairs Limited's head office is in Melbourne, Australia.

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