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ASX Market Announcement Office
ASX Limited
20 Bridge Street
Sydney NSW 2000

Via electronic lodgement

Dear Sir / Madam

Adairs Limited 2022 AGM – Chairman's and CEO's Address

Please find attached a copy of the Chairman's address and CEO report to be delivered at the 2022 Annual General Meeting to be held at 11:00am (Melbourne time) today. These should be read in conjunction with the presentation slides which is being lodged separately.

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

Yours faithfully

Fay Hatzis

Company Secretary

adairs

Adairs Limited
2022 Annual General Meeting

Chairman's address – Brett Chenoweth

Good morning ladies and gentlemen. My name is Brett Chenoweth, and I am the Chairman of the Board of directors of Adairs limited. After two years of virtual meetings, it is wonderful to be able to return to an in-person meeting, although we recognise that COVID remains a risk in the community and that many shareholders have instead elected to watch the meeting via our webcast. A warm welcome to you all.

I'd like to begin by acknowledging the traditional owners and custodians of the land on which we meet today, the Wurundjeri people of the Kulin nation. I also pay my respects to their elders past and present.

It is now 11:00am, the appointed time for holding our 2022 annual general meeting. I am advised that a quorum is present, and I therefore have pleasure in declaring this meeting open. Thank you for attending. Details about how shareholders can participate is set out in the Notice of Meeting which was sent to shareholders on 20 September 2022 and also published on our investor relations website.

Before proceeding with the formal business of the meeting, I would like to advise that I am joined today by all my fellow directors and also all the senior leadership team, including Ashley Gardner, our Chief Financial Officer.

From the Board we have in attendance:

- Kate Spargo, Non-executive Director and Chair of our Audit and Risk Committee
- Trent Peterson, Non-executive Director and Chair of our Remuneration Committee
- Kiera Grant, Non-executive Director
- David Maclean, Non-executive Director
- Mark Ronan, Executive Director, Managing Director & CEO
- Michael Cherubino, Executive Director, Property and Business Development; and
- Fay Hatzis, our Company Secretary.

Simon West resigned as a Non-executive Director on 24 June 2022 after accepting an expanded role at Warehouse Group which required him to scale back his other work commitments. I would like to personally thank Simon for the work and dedication that he showed to the Adairs business. He was generous in sharing his deep retail and ecommerce expertise with the Adairs Board and management team. He made a significant contribution.

As previously foreshadowed, the composition of the Board is being reviewed to ensure an appropriate breadth of diversity, experience, and capabilities to continue to support the business. The results of this review, which will include the appointment of a new independent non-executive director, will be advised to the market as soon as they are settled which I expect will be prior to the end of this financial year.

Also in attendance today is Tony Morse, our engagement partner with the company's auditor, Ernst & Young. Tony will be available to answer any questions on the audit and accounts at the appropriate time. We also welcome the team from the company's share registry, Link Market Services Limited.

The agenda for today's meeting is that following my introductory remarks and review of the company's financial performance during FY22, Mark Ronan, the Managing Director & CEO, will present his report which will cover our strategic initiatives and outlook. We will then proceed with the formal business of the meeting to receive and consider the financial report of the company and to vote on the resolutions.

I'll now talk through the procedural matters for this meeting.

Shareholder questions

We are only taking questions from shareholders in attendance, or their appointed representatives, as well as shareholders who pre-lodged their questions in writing prior to the AGM in accordance with the procedures set out in the Notice of Meeting.

We will endeavour to answer as many questions from shareholders as we can, and I ask that all questions be directed to me as chairman.

Voting procedures

Voting today will be conducted by way of a poll on all items of business.

Voting for all resolutions will remain open until 5 minutes after the meeting to provide eligible attending shareholders or their appointed proxy with sufficient time to cast their vote.

With each resolution we will show the tally of votes which have been lodged prior to the meeting. The final outcome of each resolution, including votes cast at the meeting, will be released to the ASX and posted on our investor relations website later today once voting has closed and numbers tallied.

Review of FY22

In the last 2 years we have become a multi-brand business, so I thought it important to state up-front where we seek to position the Adairs group strategically.

Our strategy is to own, operate and grow sector leading homeware brands in Australia and New Zealand. We target the middle market consumer with an omni channel model that allows customers to shop when, where and how they choose. Each of our brands are vertically integrated which allows us to deliver exclusive and differentiated product with a strong value for money proposition and superior margins.

Turning to the 2022 financial year, the group achieved another strong sales result including a record level of online sales. Consistent with our strategy, we also announced the acquisition of Focus on Furniture, a highly profitable vertically integrated furniture retailer operating in Australia. This acquisition increases the group's exposure to the bulky furniture category, an $8.3bn+ market, and provides the company with another significant growth opportunity.

Group sales were up 12.9% to $565 million with online sales approaching $200 million, representing 35% of total sales - again highlighting the benefits of our omni-channel model. This sales outcome was excellent given that the Adairs brand lost over 10,000 store trading days due to government-mandated closures in the first half of the year.

Group gross margin softened as expected, given the higher contribution from Mocka and Focus on Furniture which both operate at lower gross margins than Adairs. Higher sea freight costs also impacted all three businesses.

Our strong sales result was unfortunately offset by a number of factors, mostly related to risk management decisions taken in the first half to manage COVID uncertainty. These were the right decisions, but they were unforeseeable and added significantly to our cost base. Importantly, the majority of these costs should not continue into future years, and the underlying business continues to perform above its FY20 pre-COVID levels.

At Adairs, we continued to pay the Adairs store teams during store closure periods to ensure they would be available when stores reopened. In addition, the transition to the new DHL-operated National Distribution Centre was slowed down and an existing DC was retained to reduce the concentration of risk and ensure stock would continue to flow to stores and online customers. This, combined with efficiency challenges at the new DC, added considerable cost to the business. These challenges are continuing and remain a key focus for the company.

Mocka experienced a substantial increase in costs to address the local supply chain issues it experienced and continued to invest in the team to build the capability to realise the potential for the business over time.

The group delivered an underlying EBIT of $76.4 million, down 30.0% on FY21 for reasons I have already touched on although I highlight this is still 38.2% higher than achieved in FY20 and 76% higher than FY19, the last full year that was not impacted by COVID.

Turning now to our balance sheet. After funding the Focus on Furniture acquisition and the final Mocka earn-out payments, the group ended the year with net debt of $93.2 million. This will come down steadily over the next few years given our strong cash generation and we remain comfortably within our banking covenants with sufficient head room to accommodate adverse changes in the general macro environment or business performance.

Further, our banking syndicate have recently extended $90 million of our facilities to January 2026.

The Board declared a final fully franked dividend of 10.0 cents per share. This takes the total dividend payout for the year to 18.0 cents per share or 69% of statutory NPAT, towards the lower end of our policy of paying out 65-80%, which the Board considered appropriate in the current environment.

In response to shareholder feedback, we activated our dividend reinvestment plan in FY22 and just over 10% of shareholders have elected to reinvest their dividend in new shares under the plan.

We provided the market with a trading update this morning covering the first 16 weeks of FY23. This showed continued growth in sales over the same period last year and we continue to see good engagement from our customers. Mark will talk to this further in his report.

You will recall that we provided FY23 sales and EBIT guidance with our FY22 results back in August and today's trading update sees the Board affirm that guidance.

On a highly important and topical issue, the recent Optus and Medibank cyber-attacks are a reminder to all companies of the critical need to ensure they collect only customer data that is essential to delivering a great customer experience and that all customer data is rigorously protected at all times.

I thought it timely to assure shareholders and customers that we have a range of systems, processes, and infrastructure designed to Identify and prevent these kinds of attacks. The Board and management team have been proactive in their management of this risk, recognising the need for continuous improvements as threats become more sophisticated. In addition, you can be assured that we also use external cyber security specialists to assess the ongoing real time effectiveness of our cybersecurity program.

Finally, I wanted to thank you, our shareholders, for your continued support. As a Board we are very aware that our share price has been disappointing and sits below its IPO price despite the group recording 7 years of consistent sales growth and with earnings per share twice that of the company at IPO.

Unfortunately, this is the nature of the market and ultimately not something we control.

The Board firmly believes that we have the right business model, strategies, and team to continue to grow sustainable profits well into the future. These are the business elements that we control and provided we execute them well and communicate them effectively the market should ultimately reward us with a higher valuation. All our directors and the senior management team are shareholders with meaningful holdings so you can be assured that your desire to see a higher share price is shared by the company.

In closing I wanted to also acknowledge our team. These are the people who have delivered our results and who give us great confidence in the future prospects for the group. They are the reason many of you are shareholders and they have proven themselves over many years as some of the best homewares exerts and retailers in the country.

All the senior leadership team are in this room – and I encourage those of you attending in-person to use the opportunity to meet with them after the meeting. Some of you will have met Mark previously – he must surely be one of the most approachable CEO's of a listed company and certainly one of the most impressive that I have worked with. It won't surprise you that his team are cut from the same cloth and that the talent and passion you get from them flows all the way though the company and across the three businesses. You can rest assured that we are in good hands.

That concludes my report. We will have time for questions shortly however I will now hand over to Mark to present his CEO report.

Thank you.

CEO's report – Mark Ronan

Thank you, Brett.

FY22 strategic outcomes

With our financial results having been covered I wanted to focus my report on our strategy, both in what was achieved in FY22 and where we will deliver our future growth.

FY22 saw us achieve a number of important milestones in our strategy delivery.

At Adairs we passed through 1 million Linen Lover members. We have consistently talked about the importance of Linen Lovers to Adairs – they account for over 80% of all Adairs brand sales and represent our most engaged customers. In this respect they are a true barometer of our corporate health, and we are proud to have one of the largest paid-for loyalty programs of any retailer in Australia.

We continued to actively grow our Adairs store floorspace, opening 4 new stores and upsizing 11 existing stores which delivered a 7% gain on the prior year. Growth in floorspace and our Linen Lover program are each key drivers of sales growth which I will talk to in more detail shortly.

Our new National Distribution Centre became operational in September last year. The process of consolidating four distribution centres into a single DC was initially delayed due to the impact COVID had in Victoria and was finally completed in June this year. While our Adairs inventory is now all at the NDC the cost efficiency and productivity of the facility is well below our expectations and a key focus of both the management team and the operator, DHL.

The group recorded another record level of online sales in FY22 with 35% of all sales (nearly $200 million) coming through this channel. Whilst this was a terrific result, we have seen the mix of online sales reduce to around 26% following the inclusion of Focus on Furniture and as customers in a post pandemic world return to physical stores. This further supports our views that allowing our customers to shop when, where and how they wish is fundamental to our customer strategy.

The acquisition of Focus on Furniture during the year was an important development for the group. Focus is a highly profitable omni-channel furniture retailer operating in Australia and, in line with Adairs and Mocka, it targets the middle-market customer. It has 23 stores, two thirds of which are in Victoria. All stores are profitable, and we see a clear opportunity to roll out further stores.

Strategically the acquisition increases the group's exposure to the bulky furniture category which is an $8.3 billion+ market and provides the group with an experienced bulky goods retail management team. We have been very pleased with the performance of Focus since acquisition with the brand continuing to perform ahead of plan.

Our FY22 annual report includes our first Sustainability Report, which I hope shareholders have had a chance to read. As Adairs grows we need to make sure that we look to manage our impact on the environment, the communities we serve as well as meeting evolving stakeholder expectations. Going forward you will hear more from us on our sustainability strategy and initiatives, including how these are being integrated into our business and how they impact our decision making.

Sustainability covers a diverse range of important issues such as our carbon footprint, the amount of waste we send to landfill, our community support efforts, and the diversity of our board and team. Sustainability is closely linked to our values and culture, and while being sustainable is not new to Adairs it is good to bring some light to our sustainability strategy, goals and initiatives.

The last seven years

AGMs are a logical time to pause and reflect on where we have come from and where we are going. Since listing on the ASX in 2015 we have consistently delivered double digit annual sales growth.

Profitability has also grown strongly with group EBIT up 130% over the same period. Whilst the annual EBIT results have been more volatile, this reflects the pre-emptive investments made to drive future growth and the range of factors that can impact gross margins and the cost of doing business in any given year. Whilst at times these factors can be difficult to manage in the short-term it is the success of our underlying strategies that produce favourable multi-year trends and should reward patient shareholders.

We are clear about what success looks like and what it requires. Rather than simply focussing on driving sales we run the group with a view to maximise gross margin dollars in the medium term, and EBIT over the longer term.

Within this there is a significant 'business as usual' component which we must remain focussed on delivering every year. This includes things like delivering differentiated on-trend product and great customer experiences across all our brands.

Within our brands we have a commitment to delivering strong execution and continuous improvement to ensure we never stand still, consistently bringing new product to market, enhancing the look and feel of our stores and improving our customer experience. This commitment is what has enabled us to deliver year on year growth and remains a key focus of each brand.

If I move now to our future growth.

When we released our FY22 results in August we put forward a five-year sales target of $1 billion for the group. Whilst I have spoken to some of this previously it warrants repeating as across the group we have significant levers for growth.

I will talk to each of the brands individually as this reflects the way we think about the group and how it operates. As a group we look to own and operate vertically integrated retail businesses in the 'Home' space. This enables us to leverage the experience within each brand to support the overall growth of the group, allowing us to grow group capability faster, reduce execution risk and deliver greater returns for shareholders.

Future growth – the Adairs brand

Starting with the Adairs brand.

Stores are where over 80% of our loyalty membership (Linen Lover) sign-ups occur and so it is not surprising that there is a very strong correlation (almost 100%) between store floorspace and Linen Lover membership numbers, reflecting the importance stores play in reaching customers.

On average every 500 square metres of new floorspace adds approximately 12,000 new Linen Lover members.

Consistent with historical long-term trends, we expect to grow store floor space by at least 5.0% per annum over the next 5 years and have identified a number of locations whose demographics will support a new Adairs store and a further 15-20 stores within the existing portfolio that should be upsized. New stores will generally be larger stores and, while homemaker sites are highly sought, the addition of Focus on Furniture means we have the ability to take larger sites and share the space between Adairs and Focus.

Five percent annual space growth implies approximately an additional 500,000 new members, taking total memberships to 1.5 million. For context, this equates to 1 in 8 households across Australia and New Zealand (up slightly on the 1 in 11 we presently enjoy). It also implies an annual growth rate over the 5 years of 7.8% which compares to our historic annual rate of 12.3% for the last six years.

Next is the highly correlated relationship between total sales and Linen Lovers membership levels.

Linen Lovers are our most engaged customers and account for over 80% of Adairs sales – they shop twice as often and spend 50% more each shop than non-members. On average each member who shops spends approximately $400 per year.

Therefore, by focussing on growing total memberships to 1.5 million we should see sales grow to $600 million, which implies an annual growth rate of 7.7% in the next five years compared to 9.6% annually for the last six years.

Future growth – Mocka

If I move to Mocka, which as shareholders will be aware had a disappointing year in FY22. Over the course of the year its primary domestic delivery partner had to be replaced after failing to meet contracted service levels which led to many customers experiencing unacceptable delivery times. Separately, isolated product issues in the second half also led to adverse customer feedback and returns. Both issues have been addressed operationally although restoring customer confidence will take longer.

Throughout FY23 Mocka is focussed on increasing customer confidence through strong execution, restoring gross margins, and ensuring a stable supply chain.

Over the course of FY23 we also expect to launch a number of brand partnerships that will build customer confidence within Mocka's core customer demographic of young families. Leveraging these partnerships and the brand position today will see Mocka be known as the brand that enables our customers to fill their home with design-led value for money product. In effect Mocka customers will be able to get well designed functional product for less.

We know the potential market for Mocka is significant and through a more disciplined brand and product strategy the opportunity to grow Mocka over the medium term is substantial.

As we build the brand over the next couple of years, we anticipate Mocka establishing a physical store presence although the exact format and timing is still to be determined. This would support Mocka's ability to showcase product, allowing customers to interact with the product and build our quality credentials, together with building greater brand awareness and deeper relationships with customers.

As we have previously communicated, if Mocka were to achieve the same penetration in Australia as it has in New Zealand, there is the potential for Mocka Australia to exceed $100 million in sales revenue based on population size, taking Mocka sales to greater than $150 million. We see this outcome as being very achievable given the size of market it operates in and the very low market share it presently has.

Future growth – Focus on Furniture

And finally, to our latest acquisition, Focus on Furniture.

The group has acquired a high-quality business with strong capability across product, stores and last mile logistics which are particularly important for a bulky furniture brand.

Looking forward the growth for Focus will be driven by a national store rollout program.

The current portfolio of 23 stores is largely Victorian based with a small representation in other States. As we compare the overall store portfolio to other national furniture businesses there is the potential for 50-60 stores across Australia.

In addition to store roll out we see growth opportunities for the brand through category/range expansion, attracting new customers with an enhanced in-store experience and further developing the online channel.

Subject to securing the necessary sites this should see the Focus business double in both store numbers and annual sales to $250 million+ within the next 5 years.

As you can see the addition of the Focus brand now sees the group have three homewares brands that serve different customer segments within the home space. Each brand has a management team who are focussed on delivering the day-to-day requirements together with their strategic priorities with support from the group where appropriate.

Trading update and guidance

Trading in the first 16 weeks of FY23 remains in line with our plan and is consistent with the guidance we provided to the market in August.

The strong growth in sales over the prior corresponding period needs to be seen in the context of the widespread government-mandated store closures which prevailed in FY22 and the fact that we did not own Focus at that time.

However, the current trading environment remains positive with consumer confidence proving robust in the Home category. We have seen, like many omni-channel retailers, a significant shift from consumers back to stores from the online channel. This has seen Adairs and Focus on Furniture stores trade well but has obviously impacted the performance of Mocka given its pure play nature.

Overall, we expect that rising inflationary pressures and increased mortgage repayments due to higher interest rates will see a softening in consumer confidence and a more challenging trading environment ahead. However, we believe that the strengths and benefits of our business model will become more apparent as consumers potentially become increasingly value and quality orientated. We target the middle market of the Home category across all three businesses and have a strong value proposition in each. We have a large addressable market and, importantly, each brand can directly communicate with their loyal customers.

In light of today's trading update and with 8 months remaining in FY23 the Board affirms the Group Sales and EBIT guidance provided in August. We are however coming into an important sales period over coming months and our final results for the year will be significantly impacted by the outcome of those sale events.

That concludes my report.

Thank you for your time.