adairs

Adairs Limited

APPENDIX 4D

HALF YEAR REPORT

For the 26 week period ended 25 December 2022

This information should be read in conjunction with the interim condensed financial report for the 26 weeks ended 25 December 2022.

1. DETAILS OF THE REPORTING PERIOD AND THE PRIOR CORRESPONDING PERIOD

Current period:	27 June 2022 to 25 December 2022 (26 weeks)
Prior corresponding period:	28 June 2021 to 26 December 2021 (26 weeks)

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Comparison to previous corresponding period	Increase/ (Decrease)	Change %	$'000
Revenue from continuing operations	Increase	34.1%	324,230
Profit after tax from continuing operations attributable to members	Increase	23.8%	21,783
Net profit attributable to members	Increase	23.8%	21,783

Dividends	Amount per security	Franked amount per security
2022 Final Dividend – Ordinary (paid)	10.0 cents	10.0 cents
2023 Interim Dividend – Ordinary (resolved, not yet provided for at 25 December 2022)	8.0 cents	8.0 cents
Record date for determining entitlements to the dividend	Ordinary Shares	21st March 2023
Payment date of interim dividend	Ordinary Shares	6th April 2023

3. NET TANGIBLE ASSET BACKING PER ORDINARY SECURITY

	25 Dec 2022	26 Dec 2021
Net tangible asset backing per ordinary security[1]	-34 cents	-47 cents

1. The net tangible asset backing includes the Right-of-use assets as per AASB 16.

4. ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD

There are no entities over which control has been gained or lost during the period.

5. DIVIDEND

An interim dividend of 8.0 cents per share has been declared by the Board. The record date for the interim dividend is 21 March 2023, with payment on 6 April 2023.

APPENDIX 4D *continued*

6. DIVIDEND REINVESTMENT PLAN

The Company's dividend reinvestment plan (DRP) continues to be available to eligible shareholders. The last date for receipt of election notices for participation in the interim dividend under the DRP is 22 March 2023. The Company intends to issue new shares to satisfy its obligations under the DRP.

There is currently a 1.5% DRP discount applied to the dividend and no limit on the number of shares that can participate in the DRP. Shares will be allocated based on the average of the daily volume weighted average market price of ordinary shares of Adairs Limited traded over the period of 5 trading days commencing on 23 March 2023, less the 1.5% discount.

7. DETAILS OF ASSOCIATE AND JOINT VENTURES

Please refer to the Annual Financial Report for the 52 weeks ended 26 June 2022, Note 25 of the consolidated financial statements.

8. FOREIGN ENTITIES

All entities comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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INTERIM CONDENSED FINANCIAL REPORT

FOR THE 26 WEEKS ENDED
25 DECEMBER 2022

CONTENTS

ABOUT ADAIRS LIMITED

Adairs Limited is Australia's largest omni-channel specialty retailer of home furnishings, home furniture and home decoration products with three vertically integrated brands – 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.

ABOUT ADAIRS

Adairs is a leading specialty omni-channel 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**

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited (the "Company") and its subsidiaries (the "Group"), for the 26 weeks ended 25 December 2022.

DIRECTORS

The names of the Company's directors in office during the 26 weeks ended 25 December 2022 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Brett Chenoweth

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

PRINCIPAL ACTIVITIES

For the 26 weeks ended 25 December 2022, and in all referenced corresponding periods, the principal activities of the Group consisted of the retailing of homewares, furniture and home furnishings in Australia and New Zealand, through both retail stores and online channels.

DIVIDENDS

On 20 February 2023, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 25 December 2022. The total amount of the dividend is $13.8 million which represents a fully franked dividend of $0.08 per share. The dividend has not been provided for in the 25 December 2022 interim condensed financial report.

	Cents	**$'000**
Interim dividends declared:	8.00	13,772

OPERATING AND FINANCIAL REVIEW

The statutory results for the 26 week period ended 25 December 2022 are summarised below:

- Total sales were $324.2 million, an increase of +34.1% against the prior period, reflecting a fully trading store network (31% of trading days lost due to COVID-19 closures in the prior period) and a full 26 weeks contribution from the Focus on Furniture brand (acquired 1 December 2021);
- Gross profit of $171.7 million, an increase of +25.0% against the prior period. Gross profit margin fell -350bps to 52.9%, impacted by higher import costs and unfavourable exchange rate movements, as well as a greater contribution from Focus on Furniture at lower gross margins;
- Cost of doing business ("CODB") was at 40.7% to sales (excluding AASB 16 and National Distribution Center transition costs) despite inflated supply chain costs associated with the underperformance of the Adairs brand's National Distribution Centre;
- Statutory profit before income tax of $30.6 million, an increase of +17.0% on the prior period;
- Statutory basic earnings per share ("EPS") of 12.7 cents, an increase of +22.2% on the prior period;
- Net debt of $81.0 million, closing $12.2 million lower than at 26 June 2022.

The Group delivered a profit after income tax of $21.8 million for the 26 weeks ended 25 December 2022, an increase of $4.2 million on the prior period. Underlying earnings before interest and tax ("EBIT") was $35.5 million for the 26 weeks ended 25 December 2022 which is reconciled to statutory EBIT as follows (with comparatives):

	26 weeks ended 25 Dec 2022 $'000 (Unaudited)	26 weeks ended 26 Dec 2021 $'000 (Unaudited)
Statutory profit before income tax	**30,649**	**26,204**
Finance expenses	6,794	3,054
Interest income	(118)	(4)
Statutory EBIT (non-IFRS)	**37,325**	**29,254**
Significant items:		
Costs associated with the acquisition of Mocka	-	858
Costs associated with the acquisition of Focus	-	1,072
Impact of AASB 16 *Leases*[1]	(1,987)	(1,327)
National Distribution Centre transition costs	154	3,040
Underlying EBIT (non-IFRS)	**35,492**	**32,897**

1. The impact of AASB 16 *Leases* results in an earnings shift in the interim consolidated statement of profit or loss from Occupancy expenses under AASB 117 to Depreciation and amortisation expenses and Finance expenses under AASB 16.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 370C of the Corporations Act 2001 is set out on page 5.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other material changes in the state of affairs of the business during the 26 weeks ended 25 December 2022.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 16 January 2023, as part of the 2023 Tranche, an additional 876,167 performance rights were granted to other employees of the Group under the EIP for nil consideration. The terms of the performance rights are consistent with those awarded in October 2022 and are outlined in Note 13.

On 20 February 2023, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2023 financial year. The total amount of the dividend is $13.8 million which represents an interim franked dividend of 8.0 cents per share. The dividend has not been provided for in the 25 December 2022 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Group.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial period.

ROUNDING

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director
and Chief Executive Officer

Melbourne
20 February 2023

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

Ernst & Young
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Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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Fax: +61 3 8650 7777
ey.com/au

Auditor's independence declaration to the directors of Adairs Limited

As lead auditor for the review of the interim condensed financial report of Adairs Limited for the 26-week period ended 25 December 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

This declaration is in respect of Adairs Limited and the entities it controlled during the financial period.

Ernst & Young

Tony Morse
Partner
20 February 2023

INDEPENDENT AUDITOR'S REVIEW CONCLUSION

Building a better working world

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Independent auditor's review report to the members of Adairs Limited

Conclusion

We have reviewed the accompanying interim condensed financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 25 December 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 26-week period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim condensed financial report of the Group does not comply with the Corporations Act 2001, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 25 December 2022 and of its consolidated financial performance for the 26-week period ended on that date; and

b. Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410). Our responsibilities are further described in the Auditor's responsibilities for the review of the half-year financial report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the interim condensed financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the interim condensed financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the interim condensed financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 25 December 2022 and its performance for the 26-week period ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

A review of an interim condensed financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Ernst & Young

Tony Morse
Partner

Melbourne
20 February 2023

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Adairs Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of Adairs Limited for the 26 weeks ended 25 December 2022 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 25 December 2022 and of its performance for the 26 weeks ended on that date; and

(ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001;

(b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director
and Chief Executive Officer

Melbourne
20 February 2023

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

	Note	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Revenues from contracts with customers	4(a)	324,230	241,752
Revenues		**324,230**	**241,752**
Cost of sales		(152,565)	(104,386)
Gross profit		**171,665**	**137,366**
Other income	4(b)	975	264
Depreciation and amortisation expenses	5(b)	(28,802)	(22,664)
Finance expenses	5(a)	(6,794)	(3,054)
Salaries and employee benefits expenses	5(c)	(60,846)	(49,635)
Occupancy expenses		(5,516)	(4,235)
Advertising expenses		(10,454)	(8,531)
Other expenses	5(d)	(29,579)	(21,377)
Costs associated with the acquisition of subsidiaries		–	(1,930)
Profit before income tax		**30,649**	**26,204**
Income tax expense		(8,866)	(8,608)
Profit after income tax		**21,783**	**17,596**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	14	12.7 cents	10.4 cents
Diluted earnings per share	14	12.6 cents	10.0 cents

This Interim Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Profit for the period	**21,783**	**17,596**
Other comprehensive income		
Items that may be reclassified subsequently to profit and loss (net of tax):		
Net movement on cash flow hedges	(5,361)	4,808
Income tax relating to the components of other comprehensive income	1,608	(1,442)
Exchange differences on translation of foreign operations	383	(80)
Other comprehensive (loss)/income for the period, net of tax	**(3,370)**	**3,286**
Total comprehensive income for the period	**18,413**	**20,882**

This Interim Consolidated Statement of Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 25 DECEMBER 2022

	Note	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
Assets			
Current Assets			
Cash and cash equivalents	8	28,201	26,075
Trade and other receivables		4,260	5,748
Inventories	9	106,379	99,064
Current tax receivables		-	3,577
Other assets		8,206	10,809
Derivative financial instruments		8,010	11,583
Total Current Assets		**155,056**	**156,856**
Non-Current Assets			
Property, plant and equipment		24,325	23,554
Intangibles		280,275	278,785
Right-of-use assets		172,896	166,019
Derivative financial instruments		454	2,242
Total Non-Current Assets		**477,950**	**470,600**
Total Assets		**633,006**	**627,456**
Liabilities			
Current Liabilities			
Trade and other payables		66,797	51,628
Other liabilities	10	18,077	26,644
Earn-out liabilities		200	200
Lease liabilities		47,033	45,820
Current tax liabilities		782	-
Provisions		11,810	11,055
Total Current Liabilities		**144,699**	**135,347**
Non-Current Liabilities			
Other liabilities	10	1,384	1,338
Earn-out liabilities		261	461
Deferred tax liabilities		21,207	24,675
Borrowings	11	109,185	119,233
Lease liabilities		149,226	142,132
Provisions		6,060	6,387
Total Non-Current Liabilities		**287,323**	**294,226**
Total Liabilities		**432,022**	**429,573**
Net Assets		**200,984**	**197,883**
Equity			
Contributed equity		82,945	81,235
Share-based payment reserve		4,257	4,147
Cash flow hedge reserve		5,925	9,678
Foreign currency translation reserve		(120)	(503)
Retained earnings		107,977	103,326
Total Equity		**200,984**	**197,883**

This Interim Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 26 June 2022		**81,235**	**4,147**	**9,678**	**(503)**	**103,326**	**197,883**
Profit for the period		-	-	-	-	21,783	21,783
Other comprehensive income		-	-	(3,753)	383	-	(3,370)
Total comprehensive income for the period		**-**	**-**	**(3,753)**	**383**	**21,783**	**18,413**
Transactions with owners in their capacity as owners:							
Dividends declared	6	-	-	-	-	(17,132)	(17,132)
Dividend reinvestment plan	6	1,710	-	-	-	-	1,710
Share-based payments	13	-	(17)	-	-	-	(17)
Tax effect of share-based payments		-	127	-	-	-	127
At 25 December 2022		**82,945**	**4,257**	**5,925**	**(120)**	**107,977**	**200,984**

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 27 June 2021		**73,823**	**2,030**	**(106)**	**(101)**	**89,014**	**164,660**
Profit for the period		-	-	-	-	17,596	17,596
Other comprehensive income		-	-	3,366	(80)	-	3,286
Total comprehensive income for the period		**-**	**-**	**3,366**	**(80)**	**17,596**	**20,882**
Transactions with owners in their capacity as owners:							
Dividends declared	6	-	-	-	-	(16,908)	(16,908)
Exercise of share options		207	-	-	-	-	207
Share-based payments	13	-	1,574	-	-	-	1,574
Issued shares		6,000	-	-	-	-	6,000
At 26 December 2021		**80,030**	**3,604**	**3,260**	**(181)**	**89,702**	**176,415**

This Interim Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

	Note	26 weeks ended 26 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Operating Activities			
Receipts from customers (inclusive of GST)		348,132	268,636
Payments to suppliers and employees (inclusive of GST)		(277,004)	(224,135)
Interest received		118	4
Income tax paid		(6,367)	(10,950)
Interest paid		(6,454)	(2,718)
Net cash flows from operating activities		**58,425**	**30,837**
Investing Activities			
Acquisition of property, plant and equipment and intangibles		(6,722)	(5,324)
Payment of Mocka earn-out liability		-	(45,731)
Payment for the acquisition of Focus, net of cash acquired		-	(61,497)
Net cash flows used in investing activities		**(6,722)**	**(112,552)**
Financing Activities			
Drawings from borrowings		12,000	150,000
Repayment of borrowings		(22,000)	(30,000)
Payment of borrowing costs		(388)	(820)
Dividends paid		(15,422)	(16,908)
Payment of principal portion of lease liabilities		(24,149)	(17,537)
Net receipt/(payment) from exercise of share options		-	207
Net cash flows (used in)/from financing activities		**(49,959)**	**84,942**
Net increase in cash and cash equivalents		1,744	3,227
Net foreign exchange difference		382	(75)
Cash and cash equivalents at beginning of the period		26,075	25,970
Cash and cash equivalents at the end of the period	**8**	**28,201**	**29,122**

This Interim Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 25 December 2022 were authorised for issue in accordance with a resolution of the directors on 20 February 2023.

Adairs Limited (the Company or the Parent) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Group is an omni channel specialty retailer of home furnishings, home furniture and home decoration products within Australia and New Zealand. The Group's principal place of business is International Court, Scoresby, Victoria, Australia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The interim condensed financial report for the 26 weeks ended 25 December 2022 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

This interim condensed financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim condensed financial report be read in conjunction with the annual report for the 52 weeks ended 26 June 2022.

The interim condensed financial report has also been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration which have been measured at fair value.

Certain classifications have been made in the interim condensed financial report to ensure that prior year comparative information conforms to the current year presentations.

The interim condensed financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

b. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed financial report are consistent with those followed in the preparation of the Group's annual consolidated financial report for the 52 weeks ended 26 June 2022, except for the adoption of new standards effective for the Group from 27 June 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units which form three reportable segments, being Adairs, Focus and Mocka.

Operating segments are identified on the basis of internal reports to senior management about components of the Group that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision maker, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.

Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services, which when aggregated, forms three reportable operating segments.

The following tables present revenue and profit before tax information for the Group's operating segments for the 26 weeks ended 25 December 2022:

	Adairs $'000	Mocka $'000	Focus $'000	Consolidated $'000
26 weeks ended 25 December 2022				
Revenue				
External customer	220,447	25,143	78,640	324,230
Inter-segment	-	-	-	-
Total revenue	**220,447**	**25,143**	**78,640**	**324,230**
Income/(expenses)				
Cost of sales	(93,628)	(17,263)	(41,674)	(152,565)
Other income	389	6	580	975
Depreciation and amortisation expenses	(21,847)	(739)	(6,216)	(28,802)
Salaries and employee benefits expense	(47,342)	(2,958)	(10,546)	(60,846)
Occupancy expenses	(3,755)	(192)	(1,569)	(5,516)
Advertising expenses	(7,359)	(2,193)	(902)	(10,454)
Other expenses from ordinary activities	(26,233)	(1,498)	(1,848)	(29,579)
Costs associated with the acquisition of subsidiaries	-	-	-	-
Earnings before interest and tax	**20,672**	**306**	**16,465**	**37,443**
Finance expenses	(5,610)	(35)	(1,149)	(6,794)
Profit before tax	**15,062**	**271**	**15,316**	**30,649**
As at 25 December 2022				
Total assets	**355,909**	**107,980**	**169,117**	**633,006**
Total liabilities	**356,430**	**5,050**	**70,542**	**432,022**

NOTE 3. SEGMENT REPORTING *continued*

	Adairs $'000	Mocka $'000	Focus $'000	Consolidated $'000
26 weeks ended 26 December 2021				
Revenue				
External customer	194,922	34,341	12,489	241,752
Inter-segment	-	-	-	-
Total revenue	**194,922**	**34,341**	**12,489**	**241,752**
Income/(expenses)				
Cost of sales	(76,325)	(21,178)	(6,883)	(104,386)
Other income	134	15	115	264
Depreciation and amortisation expenses	(20,948)	(655)	(1,061)	(22,664)
Salaries and employee benefits expense	(45,129)	(3,083)	(1,423)	(49,635)
Occupancy expenses	(4,020)	(189)	(26)	(4,235)
Advertising expenses	(6,751)	(1,612)	(168)	(8,531)
Other expenses from ordinary activities	(19,240)	(1,880)	(257)	(21,377)
Costs associated with the acquisition of subsidiaries	(1,930)	-	-	(1,930)
Earnings before interest and tax	**20,713**	**5,759**	**2,786**	**29,258**
Finance expenses	(2,795)	(53)	(206)	(3,054)
Profit before tax	**17,918**	**5,706**	**2,580**	**26,204**
As at 26 December 2021				
Total assets	**317,379**	**113,969**	**175,364**	**606,712**
Total liabilities	**326,302**	**8,686**	**95,309**	**430,297**

Note: Focus was acquired by Adairs on 1 December 2021. The results of Focus are for the 26 days ended 26 December 2021.

Group financing (including all finance costs and finance income) and other overhead charges are managed and monitored by the Adairs segment and are not allocated to other segments.

NOTE 4. REVENUES

a. Revenue from contracts with customers

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Types of goods and services		
Sale of goods and services – stores	235,581	143,028
Sale of goods and services – online	88,649	98,724
Total revenue from contracts with customers	**324,230**	**241,752**

b. Other Income

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Interest income	118	4
Other	857	260
	975	**264**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE 26 WEEKS ENDED 25 DECEMBER 2022

NOTE 5. EXPENSES

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
(a) Finance expenses		
Interest on borrowings and other finance costs	2,888	647
Interest on lease liabilities	3,566	2,071
Amortisation of borrowing costs	340	336
	6,794	**3,054**
(b) Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	3,698	3,776
Depreciation of right-of-use assets	24,341	18,398
Amortisation of computer software	763	490
	28,802	**22,664**
(c) Salaries and employee benefits expense		
Wages and salaries	56,019	45,298
Defined contribution superannuation expense	4,844	3,473
Share-based payment expense	(17)	864
	60,846	**49,635**
(d) Other expenses		
Credit card and merchant fees	2,935	2,767
Professional fees	954	2,024
Third party warehousing related charges	16,939	8,621
Packaging and consumables	463	575
IT related costs	2,093	1,640
Asset, property and maintenance expenses	1,223	1,229
Other	4,972	4,521
	29,579	**21,377**

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Dividends on ordinary shares declared and paid:		
Final dividend for 2022: 10.0 cents per share (2021: 10.0 cents)	17,132	16,908
Proposed dividends on ordinary shares:		
Interim dividend for 2023: 8.0 cents per share (2022: 8.0 cents)	13,772	13,671

New ordinary shares in the Company were issued via the dividend reinvestment plan related to the 2022 final dividend. A total of 829,759 ordinary shares at a price of $2.06 were allotted during the 26 weeks ended 25 December 2022 (26 weeks ended 26 December 2021: nil).

NOTE 7. IMPAIRMENT TESTING

Intangible assets – goodwill and brand names

After initial recognition, goodwill and indefinite-life brand names acquired in a business combination are measured at cost less any accumulated impairment losses. Carrying amounts of goodwill and brand names allocated to the cash generating units ("CGU") are as follows:

	Adairs $'000	Mocka $'000	Focus $'000
Goodwill*	69,927	48,409	40,959
Brand	42,711	33,115	36,984

* The portion of goodwill arising from a deferred tax liability on indefinite life intangibles (brand names) acquired as part of the business combinations is excluded from the carrying amount of the CGU for impairment testing purposes, however is allocated to the CGU and would be taken into consideration in calculating an impairment should the carrying amount of the CGU exceed the recoverable amount. The amount of such goodwill is $12,395,000 for the Adairs CGU, $9,934,000 for the Mocka CGU, and $11,095,000 for the Focus CGU.

Goodwill and brand names are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill and brand names were previously subject to a full annual impairment test at 26 June 2022.

A review of indicators of impairment relating to all CGUs to which goodwill and brand names are allocated was performed at 25 December 2022. As a result of this review, no indicators of impairment were identified for the Adairs and Focus CGUs. The recent operating performance of the Mocka CGU was identified as an indicator for potential impairment and an impairment test was consequently conducted.

Following performing the impairment test, no impairment was recorded by the Group during the 26 weeks ended 25 December 2022.

Mocka CGU

The recoverable amount of the Mocka CGU has been determined based on a value-in-use calculation using discounted cash flow projections from financial forecasts approved by senior management and endorsed by the Board covering a five-year period.

The estimate of the recoverable amount of the Mocka CGU is based on conditions existing and emerging as at 25 December 2022, including observations of consumer habits emerging from the COVID-19 pandemic which has to date seen a greater shift back from eCommerce channels to 'bricks and mortar' retailing than previously anticipated. The cash flow forecasts assumed for the FY23 year reflect a substantial reduction on those applied in the previous impairment test at 26 June 2022 given the actual operating performance of Mocka for the 26 weeks ended 25 December 2022.

NOTE 7. IMPAIRMENT TESTING *continued*

Significant judgement and assumptions are required in making estimates of the Mocka CGU's recoverable amount. The cash flow forecasts used in estimating the value-in-use are most sensitive to the following assumptions:

Revenue growth rates	Rates are based on management's best estimate of anticipated growth in revenue, including anticipated growth in website traffic and conversion rates.
EBITDA growth rates	Earnings before interest tax and depreciation and amortisation ("EBITDA") is a function of gross margin and both variable operating costs and fixed overhead costs. Gross margin rates have been applied to revenue based on average values achieved in the past and adjusted for future expectations. Variable operating costs have been allocated to order volumes derived from anticipated revenues. Fixed overhead costs have been assumed based on expectations of necessary overheads to operate the business. Cost growth assumptions have been factored considering both inflationary and business growth.
Discount rates	Discount rate calculation is based on the specific circumstances of the Group and the industry in which the CGU operates and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Mocka CGU specific risk is incorporated by applying individual risk factors into the WACC.
Terminal value (long-term) growth rates	Long-term growth rate used to extrapolate cash flows in the terminal value beyond the five-year forecast period. The assumption is made based on industry related expectations for long-term growth.

Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived from discounting techniques.

Sensitivities

The table below demonstrates the sensitivity of the changes in key variables on the recoverable value of the Mocka CGU:

	Impairment test		**Sensitivity applied**	**Sensitivity impact on recoverable amount as at 25 Dec 2022**		**Break-even sensitivity**
Assumption	**25 Dec 2022**	**26 Jun 2022**		**Decrease $'000**	**Increase $'000**	
Five-year revenue CAGR**	7.4%	15.3%	- / + 1%	(7,171)	7,433	- 3.5%
Five-year EBITDA CAGR**	25.7%	34.0%	- / + 3%	(10,034)	10,858	- 6.8%
Discount rate (pre-tax)	14.6%	14.6%	- / + 0.5%	7,122	(6,342)	+ 2.6%
Terminal value growth rate	2.25%	2.25%	-/+ 0.25%	(2,155)	2,282	- 3.4%

** Compound annual growth rate ("CAGR"). The sensitivity is performed by applying an increase/(decrease) to the specific growth rate applied to the assumption in each forecast year.

The above sensitivities in isolation do not result in an impairment of the Mocka CGU at 25 December 2022. However, additional adverse changes to any of the above key assumptions may result in the carrying value of the Mocka CGU exceeding its recoverable amount.

Property, plant and equipment

A review of indicators of impairment relating to property, plant and equipment was performed as at 25 December 2022. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 25 December 2022.

NOTE 8. CASH AND CASH EQUIVALENTS

	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
Cash at bank	28,097	25,970
Cash on hand	104	105
Total cash and cash equivalents	**28,201**	**26,075**

NOTE 9. INVENTORIES

	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
Stock on hand at lower of cost and net realisable value	90,223	86,097
Stock in transit at cost	16,156	12,967
Total inventories	**106,379**	**99,064**

NOTE 10. OTHER LIABILITIES

	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
Current other liabilities		
Undelivered customer orders and deposits	7,610	16,939
Other liabilities	10,467	9,705
Total current other liabilities	**18,077**	**26,644**
Non-current other liabilities		
Other liabilities	1,384	1,338
Total non-current other liabilities	**1,384**	**1,338**
Current	18,077	26,644
Non-current	1,384	1,338
Total other liabilities	**19,461**	**27,982**

Undelivered customer orders and deposits represent amounts received from customers for orders not yet completed.

Deposits received from customers are recognised as revenue at the point of delivery of the goods to the customer.

Other liabilities include deferred revenue with respect to the Linen Lover membership program, unredeemed gift cards, as well as other revenue from contracts with customers received in advance of recognition.

The remaining performance obligations expected to be recognised in more than one year (non-current other liabilities) relate primarily to the Linen Lover membership program which will be satisfied over a two-year membership period from joining date. The Group applies the practical expedient in AASB 15 and does not disclose information about the remaining performance obligation on contracts that have an original expected duration of one year or less.

NOTE 11. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
Non-current				
Bank Loan – Facility A	BBSW + 2.15	2 Jan 2026	75,000	75,000
Bank Loan – Facility D	BBSW + 2.05	3 Jan 2025	35,000	45,000
Principal outstanding borrowings			110,000	120,000
Capitalised borrowing costs			(815)	(767)
Total non-current			**109,185**	**119,233**
Current			-	-
Non-current			109,185	119,233
Total interest-bearing loans and borrowings			**109,185**	**119,233**

	As at 25 Dec 2022 $'000	As at 26 June 2022 $'000
(a) Financing facilities available		
At reporting date, the following non-shareholder financing facilities had been in place with the bank and were available:		
Term debt facilities available at the reporting date:	135,000	135,000
Term debt facilities used at the reporting date:	(110,000)	(120,000)
Other multi option facilities available at the reporting date:	6,500	6,500
Other multi option facilities used at the reporting date*:	(3,745)	(3,745)
Facilities unused at the reporting date:	**27,755**	**17,755**

*The amount of used multi option facilities of $3,745,000 (June 2022: $3,745,000) represents bank guarantees.

In October 2022, the Group renegotiated the maturity date of Facility A by two years and five months which is now due to expire on 2 January 2026. There were no further material changes to the finance facilities.

NOTE 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Forward currency contracts – cash flow hedges

The Group buys inventories that are purchased in US Dollars ("USD"). In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward currency contracts to purchase USD. These contracts are hedging highly probable forecasted inventory purchases and the contract notional value is forecast to total less than the expected level of total purchases of inventory in USD within 18 months.

Forward currency contracts are timed to mature when payments are scheduled to be made. These derivatives have met the requirements to qualify for hedge accounting with movements recorded in other comprehensive income accordingly.

Fair value of financial assets and liabilities

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement directly or indirectly observable
- Level 3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of forward currency contracts is measured at fair value using the Level 2 method. Forward currency contracts are measured based on observable spot exchange rates, the yield curves of the USD as well as the currency basis spread between the currencies.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments:

	As at 25 December 2022		As at 26 June 2022	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Forward exchange contracts	8,464	8,465	13,825	13,825
	8,464	**8,465**	**13,825**	**13,825**
Financial liabilities				
Earn-out liabilities	(461)	(461)	(661)	(661)
Bank Loans	(109,185)	(109,185)	(119,233)	(119,233)
	(109,646)	**(109,646)**	**(119,894)**	**(119,894)**

NOTE 13. SHARE-BASED PAYMENTS

In addition to those disclosed at 26 June 2022, the following performance rights were granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP") during the 26 weeks ended 25 December 2022.

2023 Tranche

In October 2022, 397,357 performance rights were granted to participants under the EIP for nil consideration. The performance rights vest if the service and performance conditions are met. The service condition requires the participants to be employed on a full-time basis by an entity of the Group from the grant date to 29 June 2025. The performance rights are subject to an earnings per share (EPS) performance condition. The performance hurdles are expressed as the absolute EPS for the financial year 2025. The proportion of performance rights that vest will be pro-rated from 0-100% based on achieving an EPS of less than 35 cents to above 45 cents.

If these respective conditions are not met, the performance rights will not vest. The effective life of each performance right granted is 2.7 years which reflects the performance period. No dividends or voting rights are attached to performance rights prior to vesting, however shares allocated following the vesting of performance rights will rank equal in all respect with other ordinary shares.

The fair value per performance right granted was estimated at the grant date by taking into account the terms and conditions upon which the performance rights were granted and applying the following assumptions:

	2023 Tranche – Performance Rights
Pricing model	Black–Scholes Model
Dividend yield	9.00%
Risk-free interest rate	3.75%
Expected life	2.7 years
Exercise share price	$Nil
Fair value of performance rights at grant date (per performance right)	**$1.52**

For the 26 weeks ended 25 December 2022, the Group has recognised a credit of $17,000 of share-based payment expense in the consolidated income statement due to certain service and performance conditions not being met in relation to previously issued tranches of share options (26 weeks ended 26 December 2021 expense: $1,574,000).

NOTE 14. EARNINGS PER SHARE

Basic earnings per share ("EPS") amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by weighted average number of ordinary shares outstanding during the period, adjusted for dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	26 weeks ended 25 Dec 2022 $'000	26 weeks ended 26 Dec 2021 $'000
Profit for the year attributable to ordinary equity holders of the Parent	21,783	17,596
Profit attributable to ordinary equity holders of the Parent for basic earnings	**21,783**	**17,596**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**21,783**	**17,596**

	As at 25 Dec 2022 $'000	As at 25 Dec 2022 $'000
Weighted average number of ordinary shares for basic EPS	171,531	169,334
Share options	1,498	6,888
Weighted average number of ordinary shares adjusted for the effect of dilution	**173,029**	**176,222**

NOTE 15. EVENTS AFTER THE BALANCE SHEET DATE

On 16 January 2023, as part of the 2023 Tranche, an additional 876,167 performance rights were granted to other employees of the Group under the EIP for nil consideration. The terms of the performance rights are consistent with those awarded in October 2022 and are outlined in Note 13.

On 20 February 2023, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2023 financial year. The total amount of the dividend is $13.8 million which represents an interim franked dividend of 8.0 cents per share. The dividend has not been provided for in the 25 December 2022 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company.

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CORPORATE INFORMATION

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