



ASX Announcement

Adairs Limited Adairs National Distribution Centre update

1 August 2023

Adairs Limited (ASX: ADH)

Adairs advises that it has entered into an agreement with DHL Supply Chain (Australia) Pty Ltd (**DHL**) under which it will take over operational control of its' National Distribution Centre (**NDC**) from 6 September 2023.

As previously advised, the operational outcomes at the DHL-operated NDC since its commissioning in September 2021 have been below expectations which has adversely affected customer experiences and resulted in operating costs well in excess of the business case and the costs incurred by Adairs prior to moving to the NDC. Whilst DHL have been able to improve service levels and customer experience over the past six months, they remain below Adairs ongoing requirements and there are limited options under the current 3PL model to materially improve the outcomes further.

Adairs has therefore decided to exercise its 'step in' rights. By taking this action Adairs will assume control of the facility and be able to drive the changes required to deliver the targeted efficiencies and service levels.

Investment and funding

This important initiative will see Adairs outlay approximately \$18 million in capital expenditure over the next 12 months, comprising:

- A payment to DHL for the acquisition of all warehouse operating assets at their written down value, including:
 - storage systems (pallet racking systems, shelving units, conveyors and automation, mezzanine floors, and other storage solutions); and
 - office and ancillary equipment.
- Replacement of DHL's warehouse management system and other IT systems at the warehouse, which is expected to be completed in H2 FY24.

In addition, Adairs expects to incur approximately \$2.0 million of transition costs over the next 12 months related to program management and employee transition costs, including recruitment and training.

The above payments will be funded from existing cash flows and finance facilities.



Financial impact

The full transition, including the replacement of the warehouse management system (WMS), is expected to take up to 12 months. In the first year Adairs expects to realise annual cost savings of approximately \$4.0 million over the current 3PL model, which will increase in year two with the benefits of the new WMS.

Adairs expects this initiative will be modestly EPS positive from year one, with payback within four years.

A complete review of the design of the NDC will be undertaken in the first 12 months which will provide a roadmap to further material productivity improvements and cost savings.

Mocka and Focus on Furniture are unaffected by these developments as the NDC only services the Adairs brand stores and online channel.

Commenting on the decision, Adairs' CEO & Managing Director Mark Ronan said:

"The NDC is a key component of our integrated omni-channel infrastructure. We continue to believe in its potential and capacity to support our growth. Our partnership with DHL has not delivered on our expectations, or that of our customers, for a number of reasons. We have elected to take control of the facility so that we can implement the changes we believe are necessary to improve the service to our customers and stores at a lower cost.

We are an experienced operator of distribution centres, having done so until the partnership with DHL commenced in 2021, and have retained significant inhouse capability over this time.

I want to thank DHL for their efforts over the duration of the contract and their commitment to ensuring a smooth transition with minimal disruption to our business."

Investor conference call

A conference call to discuss this announcement, hosted by Mark Ronan (Managing Director and Chief Executive Officer) and Ashley Gardner (Chief Financial Officer), will be held at 11:30AM (Melbourne time) today, Tuesday, 1 August 2023.

Anyone wishing to listen to the call is required to register in advance which can be done by clicking on the link below. By registering you will be provided with the dial in number, the passcode for the call, and your unique access PIN. This information will also be emailed to you as a calendar invite.

[*Pre-register for call \(click here\)*](#)

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

Adairs Limited will release its full year results on Monday 21 August 2023.

Authorised for release 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 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