

ADOREBEAUTY

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Adore Beauty Group Limited
ABN 78 636 138 988

ASX ANNOUNCEMENT

23 August 2023

Adore Beauty returns to growth in H2 and improves profitability; customer loyalty remains resilient

Adore Beauty Group Limited (**ASX: ABY**) (**Adore Beauty** or **Company**), Australia's number one pureplay online beauty retailer¹, has released its results for the 12 months ended 30 June 2023 (**FY23**).

FY23 Summary:

- Revenue of \$180.6 million, down 9.6% on the lockdown-impacted prior corresponding period (PCP); three-year revenue CAGR of 14%
 - Revenue returned to growth in H2 FY23, up 0.5% on H2 FY22, despite challenging conditions
 - Positive sales momentum continues into FY24 with year-to-date revenue up 5.9% on PCP²
- Active customers³ of 801k were down 8% on PCP; up 11% on a three-year CAGR
- Returning customers⁴ increased 4% on PCP to a record high of 490k; three-year CAGR of 31%; contributing 76% of all revenues
- Reported EBITDA of \$0.6 million and EBITDA margin of 0.4%, reflecting lower operating leverage, cost inflation, and re-investment in key initiatives
 - Early benefits of cost and margin optimisation programs with H2 improvements in gross profit margin, marketing efficiencies, and employee costs

¹ Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates.

² Revenue based on unaudited management accounts. Comparison of 1 July – 15 August 2023 against PCP.

³ Active customers refer to customers who have ordered in the last 12 months, PCP is the prior 12-month period.

⁴ Returning customers are customers who have placed an order in any period prior to FY23 and re-purchased in the period; comparison of FY23 to FY22.

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- Strategic initiatives maturing, with mobile app accounting for a quarter of all sales in Q4 FY23; brand awareness increasing 3%⁵ to 62% in August 2023; and more than tripling the number of owned brand SKUs in FY23
- Refined strategy to drive growth
- Strong cash balance of \$27.8 million available for investment, and no debt

Commenting on Adore Beauty's FY23 performance, CEO Tamalin Morton said, "Adore Beauty returned to growth in the second half despite challenging trading conditions, demonstrating our compelling customer value proposition and the underlying strength of our business. Our almost 500k returning customers continue to grow year-on-year, contributing 76% of all revenue in FY23 and driving record average order values.

"We have maintained sales momentum into FY24, up 5.9% on the same period last year, and our proposition continues to resonate with customers. We remain focused on providing a high-quality, wide range of brands with 130-day returns, free express shipping, and complimentary samples for orders over \$65, plus even more benefits for our Adore Society loyalty members. Value remains a key driver for customers, highlighted by record sales at multiple promotional events throughout the year. Importantly, these events are well supported by our brand partners.

"Encouragingly, early benefits of programs designed to increase margins and optimise costs improved the bottom line in the second half and will support our profitability targets over the coming year. These programs are helping temper inflationary pressures, which impacted margins and profitability in FY23 with higher costs across key input lines, softer sales than prior lockdown-impacted periods, and lower operating leverage.

"Adore Beauty's strategic growth initiatives continue to mature with mobile app sales accounting for a quarter of all revenue in Q4 FY23. We see further opportunities to increase revenue contribution from the app and are investing in AI, beauty technology and user experience enhancements to support decision making and conversion. Strong engagement and sales from loyalty members reinforce the underlying trust in the brand and strength of the business, and we are stepping up our owned brand portfolio to improve margins over the long-term. In FY23, we more than tripled the number of private label SKUs to 38 and have plans for further expansion.

"We enter the new financial year with a refined strategy, focused on customer centricity, increased brand awareness, and operational optimisation. New strategic initiatives already underway provide short and long-term growth levers, and include leveraging new data insights to enhance our product offering and loyalty program, real-life activations and audience expansion initiatives."

⁵ August 2023 compared to June 2022

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Key strategic initiatives

Adore Beauty re-invested in its key strategic initiatives in FY23, designed to support long-term revenue growth, key customer metrics, market share, and margins.

The mobile app is nearing its 30% revenue target, representing a quarter of all sales in Q4 FY23, up from 15% for the same period last year. Average order values and frequency through the app remain elevated compared to web, up 14% and 34% respectively.

New initiatives are underway to support customer retention and drive average order frequency. Customer acquisition unit economics show average customer lifetime value growing to almost seven times the acquisition cost by year five.

Adore Beauty continues to expand its brand and adjacency offering to drive sales and support customer retention and acquisition, onboarding 20 new brands over the year, including Dior. The Company also added complementary adjacencies with pre- and post-natal products and period underwear.

The Company's owned brand portfolio has significantly increased in the last 12 months to 38 SKUs across the AB Lab, Adore Beauty and Viviology brands. Additional launches are being examined in a few categories for FY24, and range expansion is planned for all three existing brands. Adore Beauty also continues to evaluate M&A opportunities.

Content-driven impressions⁶, up 23% on the PCP, continue to support organic traffic to Adore Beauty's owned marketing channels with customer education benefitting brand awareness. The Company's brand awareness⁷ in the 25-45 female demographic increased 3% over the year, with 7% growth in the 45-65 female segment. Brand awareness is a key focus for the Company in FY24, particularly in the 41-50 female demographic.

Strong balance sheet; investing in inventory to reduce missed sales

Adore Beauty is a capital efficient business with a strong cash balance of \$27.8 million as at 30 June 2023, and no debt. Given out-of-stocks and subsequent missed sales, the Company made

⁶ Content-driven impressions measures total consumption of podcast episodes, social content views (Instagram, Facebook, YouTube and Tiktok) including videos, posts, articles, tutorials and educational longer form videos.

⁷ Pureprofile results August 2023, Prompted Awareness AU female 25-44, Adore Beauty 62%. Sample taken by third-party brand tracker Pureprofile, a randomised consumer research panel made up of minimum 2500 Australian females aged 18-65, providing representation of the Australian public.

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a strategic decision to increase its inventory in higher turnover products. This has already had a positive impact on sales, while representing minimal inventory risk to Adore Beauty.

Trading Update & Outlook

Adore Beauty's sales momentum continued into FY24 with year-to-date⁸ revenue up 5.9% on PCP, despite challenging retail trading conditions that are expected to continue.

In FY24, Adore Beauty will leverage its strong balance sheet to phase investment in key strategic initiatives. These initiatives, combined with the increased impact of cost and margin optimisation programs, are expected to increase operating leverage, and deliver EBITDA margin expansion.

Adore Beauty is targeting an EBITDA margin of 2-4% in FY24.

Investor conference call details

An investor conference call will be held this morning (23 August) at 10:30am AEST. Attendees will have the opportunity to ask questions at the end of the presentation.

Teleconference: Participants can register for the conference at: <https://sl.c-conf.com/diamondpass/10028223-ums1kc.html> or alternatively dial 1800 590 693 (Australia toll free) or +61 3 8317 0929, and provide the conference ID **10032378** to the operator.

Webcast link: <https://ccmediaframe.com/?id=uBCQXL7f>

--Ends--

This announcement was authorised by the Board of Directors.

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⁸ Revenue based on unaudited management accounts. Comparison of 1 July – 15 August 2023 against PCP.

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Appendix

A\$M	FY23	FY22	FY21	FY20	FY23 vs FY22 Mvmt	FY20 – FY23 CAGR
Revenue	180.6	199.7	179.3	121.1	(10)%	14%
Gross Profit (%)	32.8	33.3	33.1	31.8	(0.5)ppts	1ppts
Reported EBITDA⁹	0.6	5.3	7.6	5.0	(88)%	(50)%
EBITDA Margin	0.4%	2.7%	4.2%	4.1%	(2.3)ppts	

About Adore Beauty

Launched in 2000 as Australia's first beauty focused e-commerce website with a vision to help customers feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience personalised to their needs. Adore Beauty has evolved to an integrated content, marketing and e-commerce retail platform that partners with a broad and diverse portfolio of more than 270 brands and over 12,000 products.

Forward Looking Statements

Certain statements made in this release are forward-looking statements. These forward-looking statements are not historical facts but rather are based on Adore Beauty's current expectations, estimates and projections about the industry in which Adore Beauty operates, and beliefs and assumptions. Forward looking statements can generally be identified by the use of forward looking words such as 'anticipate', 'believe', 'expect', 'project', 'forecast', 'estimate', 'likely', 'intend', 'should', 'will', 'could', 'may', 'target', 'plan' and other similar expressions within the meaning of securities laws of applicable jurisdictions. Indications of, and guidance or outlook on future earnings, distributions or financial position or performance are also forward looking statements. These statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, some of which are beyond the control of Adore Beauty, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward -looking statements. Adore Beauty cautions shareholders and prospective shareholders not to place undue reliance on these forward-looking statements, which reflect the view of Adore Beauty only as of the date of this release. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements.

⁹ EBITDA comparisons include proforma adjustments.

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The forward-looking statements made in this release relate only to events as of the date on which the statements are made. Adore Beauty has no obligation to release publicly any revisions or updates to these forward looking statements to reflect events, circumstances or unanticipated events occurring after the date of this release except as required by law or by any appropriate