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

Via electronic lodgement

Dear Sir / Madam

Adairs Limited 2024 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 2024 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

Jamie Adamson

Company Secretary

Adairs Limited
2024 Annual General Meeting

Chairman's address – Trent Peterson

Good morning ladies and gentlemen. My name is Trent Peterson. I am the Interim Chair of the Board of Adairs Limited. On behalf of the Board, I extend a warm welcome to everyone in attendance, particularly our shareholders, including those who are watching us online.

It is now 11:00am, the appointed time for commencing our 2024 AGM. I am advised that a quorum is present and declare the meeting open. Details about how shareholders can participate is set out in the Notice of Meeting which was sent to shareholders on 24 September 2024. The notice is also published on our investor website.

I am joined today by my fellow directors and also key members of our leadership team, including Ashley Gardner, our Chief Financial Officer and Jamie Adamson, our Company Secretary.

From the Board we have in attendance:

- Kiera Grant, Non-executive Director and Chair of our Audit & Risk Committee
- David Maclean, Non-executive Director; and
- Mark Ronan, Managing Director & CEO

This is a smaller Board than prior years. A process of Board renewal is currently underway.

As shareholders are aware, Brett Chenoweth resigned from the Board in March and Kate Spargo resigned in August. Brett and Kate each made significant contributions to the Board over their years of service, and we thank them sincerely for their valuable contribution.

We are currently mid-stream in a process to appoint two to three new non-executive directors, one of whom will likely become the next Chair of the Board. These are important appointments, and the Board is clear on the skills and experience sought.

Tony Morse from our auditor, Ernst & Young, is also in attendance. 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.

The agenda for today's meeting is that following my introductory remarks, Mark Ronan, our Managing Director and CEO, will present his report. Mark will also comment on current trading. We will then proceed with the formal business of the meeting to receive and consider the company's financial report and vote on the resolutions.

I'll now explain 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 accordance with the procedures set out in the Notice of Meeting.

We will endeavour to answer as many questions from shareholders as we can. 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 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.

Mark Ronan

In the last few months, we announced Mark's departure, and since then we have announced the appointment of Elle Roseby as his successor. Due to contract commitments, Elle is unable to start until 20 January 2025.

While Mark will be with the company for a few more months, we want to publicly acknowledge his leadership, tenure, and contribution to the company at his final AGM at Adairs. Mark joined Adairs in 2007 and held various leadership positions over the course of the next nine years. In 2016, he became Managing Director and Chief Executive Officer and has held this position for some eight years. Mark has been an excellent leader and is widely respected. He led the acquisitions of Mocka in 2019 and Focus on Furniture in 2021. Both served to diversify the Group.

Mark also played a key role in developing our online channel and wider omni-channel strategy, which meant that when COVID hit in early 2020 the Group was better placed than many to weather the initial storm and perform exceptionally well through the "COVID years".

Mark is determined to deliver a strong first-half result in FY25. He remains fully engaged in the business, delivering results and executing our strategic priorities.

Yesterday's trading update shows evidence of this dedication and the hard work of Mark and our team. The decision of Adairs to step-in at the NDC is proving to be a strong and important decision, and Mark will update on this matter in his report.

I speak for the entire Adairs family in thanking Mark for his service and leadership. The company is materially better for his contribution. We wish him well for the years ahead.

Mark will always be a friend of Adairs and our team.

Elle Roseby

Moving to the appointment of Elle as our incoming Group CEO and Managing Director. As much as we will miss Mark, Elle is an exciting appointment for our company.

Elle is an authentic values-driven leader with deep retail experience across fashion apparel and home textile product categories. Elle joins us from Country Road Group, where she was Managing Director of the Country Road brand for six years, delivering exceptional results.

We believe she is an excellent appointment and look forward to her commencement in January 2025.

Our people remain our greatest asset. How we attract, retain and incentivise our people remains a key focus of the Board. A number of the senior leadership team are in the room today and I encourage those attending to use the opportunity to talk with them after the meeting.

I am pleased with the progress we are making across the portfolio. The improvements in performance we are seeing are encouraging. We are well-positioned as we look toward the emergence of an improved consumer environment. Ultimately, our success will be most influenced by matters we control, and this is our focus.

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

Thank you.

Managing Director and CEO's address – Mark Ronan

Thank you, Trent.

As shareholders will be aware, the 2024 financial year was a challenging one for many retailers, with the macroeconomic environment impacting household budgets. However, as we expected to be operating in this environment, we planned accordingly and focused on delivering against those elements within our control.

This saw group sales finishing down 4.3% with the higher cost of living pressures seeing a reprioritisation of household expenditure and a decline in customer traffic.

Disciplined purchasing and pricing strategies across the Group, supporting less clearance activity and driving more profitable sales, drove a 170 basis point improvement in gross margin to 60.3%. Our costs of doing business were well controlled. Through various cost management initiatives and cost-out programs we removed approximately $11m in cost across the FY24 year. This helped offset ongoing inflationary pressures of 3 to 6% across our major cost lines such as wages, rents, utilities and freight to see the Group deliver a flat CODB result.

This resulted in underlying Group EBIT of $57.6 million, which was down 9.8% on the prior year.

Whilst the financial results were not what we wanted, the businesses did a good job of managing their controllables. Importantly across FY24 each business delivered initiatives to support their future growth and set themselves up for FY25 and beyond.

I will now take a moment to walk through the achievements and priorities of each of the businesses.

Adairs

Taking over the National Distribution Centre ("NDC") was a significant event that provided Adairs with operational control, delivering improved service and cost outcomes with supply chain cost savings of $4 million in FY24.

After taking operational control of the NDC in September 2023, we needed to use the existing DHL systems whilst we worked through the implementation of a new warehouse management system. This was successfully implemented across July and August this year, completing the final step in taking full control of the NDC. It is hard to overstate the impact the NDC difficulties had on almost all aspects of the Adairs business over the last three years. Not only did it lead to poor customer delivery outcomes and materially higher supply chain costs, but it also made it incredibly difficult to manage stock levels in-store with any confidence, and this directly impacted the sales performance and morale of teams across Adairs.

Having full control of the NDC now sees Adairs in a good position to deliver further material service and productivity improvements through more efficient processes and allows for the establishment of a continuous improvement program to pursue further supply chain efficiencies in the coming years.

The improvement in Adairs supply chain capabilities and the reduced distraction has allowed us to concentrate on what really matters - our product. This has seen the product team deliver improved and expanded ranges across the bedlinen, kids and furniture categories. Continuing to develop these ranges allows us to grow sales by introducing different product types and targeting different customer styles.

To complement the growth we expect from our existing categories we continue to work on category expansion trials to build out the product offering to see Adairs become the destination for home styling in the years to come.

Supporting the growth in our existing categories is an in-stock initiative that has seen us invest more inventory in a selection of our key lines to provide our customers with a better in-store experience and deliver sales growth.

The ongoing investment in our Linen Lovers program saw Adairs maintain approximately one million members despite the more challenging trading environment. Over the last couple of years we have invested in bringing together all our customer data to build a complete view of our Linen Lover members. This has enabled a series of personalisation programs that delivered more than $3m in incremental sales last year and highlighted additional opportunities that we will trial in FY25. This ongoing investment also allows us to consider how we evolve the Linen Lover program to provide additional value for Adairs customers, to deliver ongoing membership and sales growth.

Whilst we didn't grow our total store number in FY24 it was a good example of how Adairs continues to build out its larger store formats, which provide for a wider product range and superior store economics. In FY24 we opened seven new stores, upsized six existing stores and closed seven smaller stores, seeing an increase in store space and an improved portfolio.

As we look forward there remains opportunities to grow the store footprint through optimising our portfolio. While all stores are profitable, we see a number of smaller shopping centre stores coming under pressure from reduced foot traffic, increased rents, and an inability to support the wider product offering. The optimisation of the store network will see Adairs continue to upsize or close these smaller underperforming stores whilst building out the larger store portfolio and overall driving an increase in GLA to support sales growth.

The investments across product, customer experience and stores sees Adairs well placed to deliver growth in the coming years.

Focus on Furniture

At Focus on Furniture, we are continuing the work on rolling out a national store footprint.

In FY24 Focus opened two new stores – one at Helensvale in Queensland and one at Prospect in NSW and I am pleased to report that both are trading well. Whilst the homemaker space continues to be tightly held the pipeline of opportunities is growing slowly with two stores expected to open in FY25 and our long-term store target remaining at 50+.

In addition, the store refurbishment program saw two existing stores in Victoria updated to the new look. The new look sees an investment in store design and lighting that elevates the way product can be presented and supports an improved customer experience. The relative uplift in sales performance across the refurbished stores has been pleasing and continues to support ongoing investment in updating further stores across the network. Given these results, Focus will also look to refurbish 3 – 5 stores per annum to update the store portfolio over time.

To support the store network growth, a Queensland distribution centre was established in FY24, allowing us to increase the number of containers delivered directly into Queensland which reduces cost and provides a faster delivery experience for this region. Highlighting one of the benefits of our Group, this was able to be done by reconfiguring Mocka's Brisbane-based warehouse, providing Focus with the improved operational capability, at no incremental cost to the Group.

While the store rollout has been slower than we would have liked, we are confident that this strategy will deliver good returns for our shareholders over time.

Mocka

At Mocka the hard work undertaken in FY23 to stabilise the operational platform and increase profitability provided us with the opportunity to consider what was required going forward.

As part of this we identified a need to upgrade our systems to enable future growth options. This led to the successful re-platforming of the Australian website and backend supporting systems in April 2024 and New Zealand in August 2024. Off the back of the re-platform Mocka has seen improved website performance and functionality which is delivering improved sales results.

Further, the systems upgrade will not only allow us to continue optimising the customer experience to deliver increased conversion rates and average transaction values, but it will also support more efficient processes across the business. This provides Mocka with the opportunity to leverage the new operating platform to deliver sales growth from existing and new sales channels.

This has seen Mocka commence trialling initiatives that create a physical presence for the Mocka business.

We have recently launched a shop-in-shop at the Adairs store in Sylvia Park, New Zealand's largest shopping centre. Here selected Mocka product is showcased alongside Adairs product, with the Adairs team able to sell both businesses products, whilst fulfilment occurs via the existing delivery channels.

Separately, we recently delivered two Mocka products into Bunnings, which are now available across their Australian and New Zealand stores.

Both of these initiatives are aimed at understanding what customers are looking for as we build out a physical strategy for Mocka that allows us to service the entire market and deliver profitable growth.

This will all be supported by continuing to develop product that delivers good quality, great value flat pack furniture for the home.

There are a number of gaps in the current product offering where we aren't providing customers with a complete range that enables them to buy into our core categories. In some instances, this sees opportunities across the pricing spectrum with not enough options across the different price points within a category, whilst in other areas it is a lack of width in the product offering that means customers have to shop elsewhere for a component that potentially loses the entire sale. The early stages of filling in these gaps has delivered good results and the team continue to take the learnings and work through building out a more complete offering so that over time we have an improved assortment delivering both increased basket size and customer conversion.

The good work of the last 18 months provides Mocka with a range of growth opportunities that will be trialled over the next 12 – 18 months.

Sustainability

Whilst not calling it out specifically within each of the businesses, sustainability and enhancing our sustainability credentials is a key work stream of the Group.

In FY24 we reduced emissions by more than 6%, diverted 46% of all waste from landfill and continued building our plans across the Group to target net zero on our scope 1 and 2 emissions by 2030.

Across the next couple of years, I expect that each business will be in a good position to be able to introduce more customer-facing sustainability messaging. As a Group, we believe in delivering real initiatives and sharing these, such as removing plastic from our packaging, introducing more sustainable materials across our product ranges or utilising solar power in our sites. This takes time and we continue to build both our capability and ambitions in this space to ensure any claims we make can be well supported.

Across the group, I am pleased with the progress we are making in implementing a variety of initiatives and with where the businesses are placed for their next phase of growth.

Trading update

Our trading update for the first eight weeks of FY25 which we provided back in August at the release of our FY24 result showed group sales down 0.4%. We noted at the time that this was impacted by a deliberate reduction in promotional activity in the Adairs business to manage order volumes at the NDC while we transitioned to the new WMS. We also noted that Q1 is traditionally our quietest quarter and that we remained optimistic about what we could achieve in FY25.

Yesterday, we provided a sales update for the first 16 weeks of FY25, which supports that early optimism. We continue to see mixed results across our businesses and countries, with Adairs delivering good results, Mocka performing well in Australia and improving in New Zealand, and Focus continuing to be impacted by the relatively poor performance of Victoria, and the fact that our store portfolio is heavily weighted towards Victoria.

From a Group perspective, while we are pleased with the results to date, we know that Q2 contains a number of significant sale events that will have a material impact on the first-half result.

Finally, as this will be my last AGM as Managing Director and CEO I wanted to take this opportunity to thank shareholders for their support over the years.

I also want to sincerely thank all of our team members, both past and present, for their hard work and all that we have achieved together. I am truly grateful for the opportunity I have had to work with and lead such a wonderful group of people.

Thank you, that concludes my report.