

# ASA Investor Conference 2020

## “Investing in the future of retailing”

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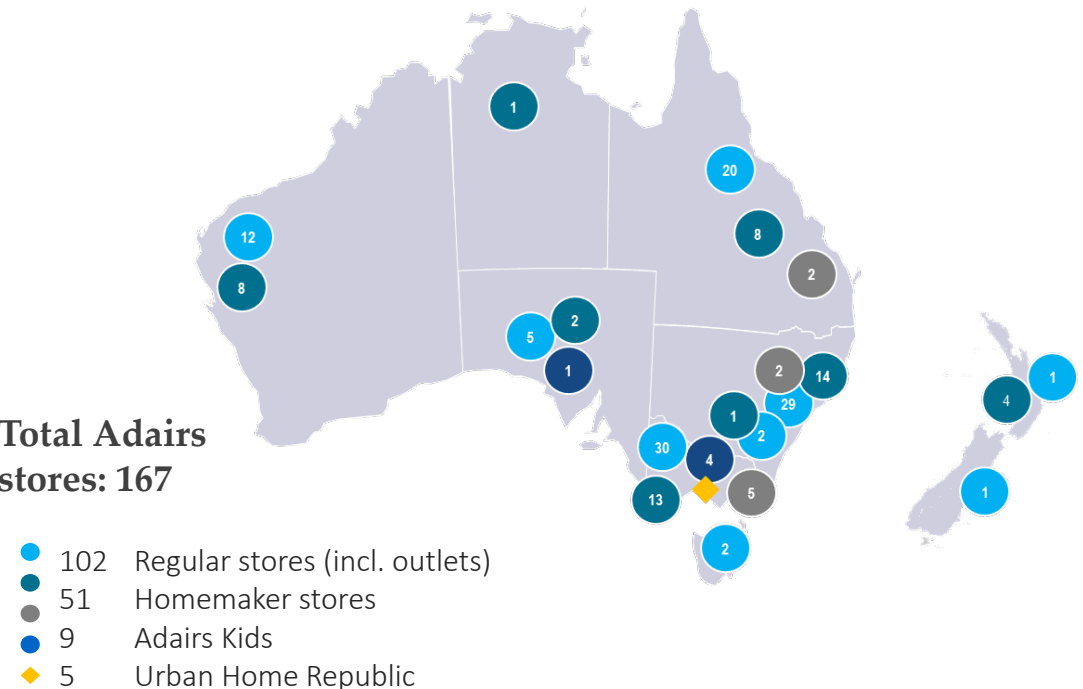
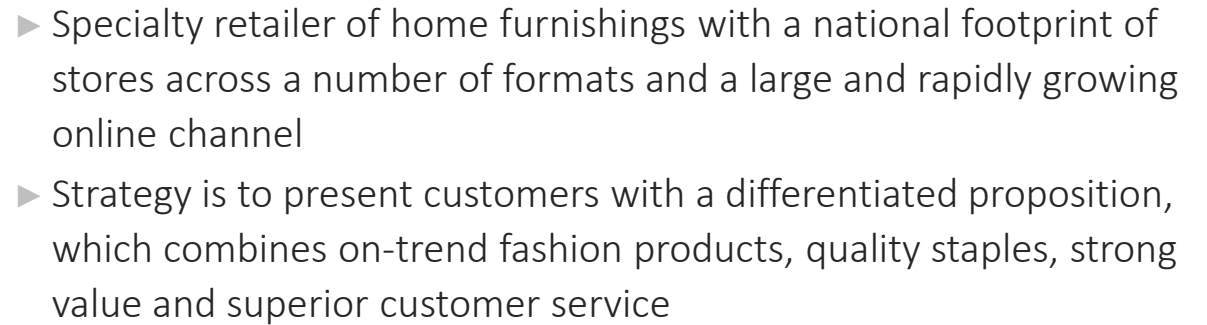
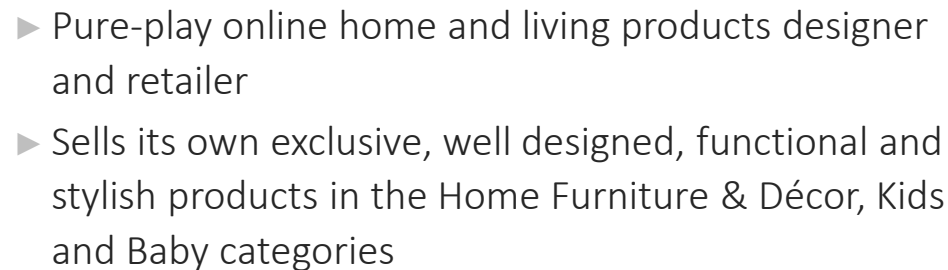


# Agenda

- 1 Introduction to Adairs
- 2 What do the retail futurists predict?
- 3 The impact of COVID-19 on the future of retail
- 4 Retailing challenges in the next decade
- 5 How Adairs is positioning itself for this future
- 6 Questions



- ▶ Australia's largest omni channel specialty retailer of home furnishings and home decoration products
- ▶ Own and operate two businesses in the category, Adairs and Mocka
  - both are vertically integrated, design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand
  - Each operates completely independently of the other





## Digital commerce will lead to a redesign of storefronts and service delivery

### Store front

- ▶ Retailers will be able to send alerts to notify of new pricing, products or experiences to a consumer's individual wearable or voice platform
- ▶ Screens in the shopfront/store will show you wearing or using their product

### Entry and Exit

- ▶ Facial scanning will identify customers upon entry to the retail store, enabling retailers to provide a more tailored experience
- ▶ Payment for the product or experiences will be automatically made upon exit from the retail store (as will inventory replenishment orders)

### In-store experience

- ▶ Shopping will be more contextual, allowing consumers to try on clothes or see new furniture in a virtual incarnation of the final environment
- ▶ Experiential centres will be built to enable consumers to touch, feel and experience products that require more consideration
- ▶ The consumer's virtual personal stylist will help consumers make choices in the context of what they already own or what might complete a desired look





Retail e-commerce is growing steadily but not all categories sell easily online and, while COVID has helped, the next stage of evolution is likely to require substantial investment

## Some categories sell better online than others

### More likely to transact online

Commodity items in general

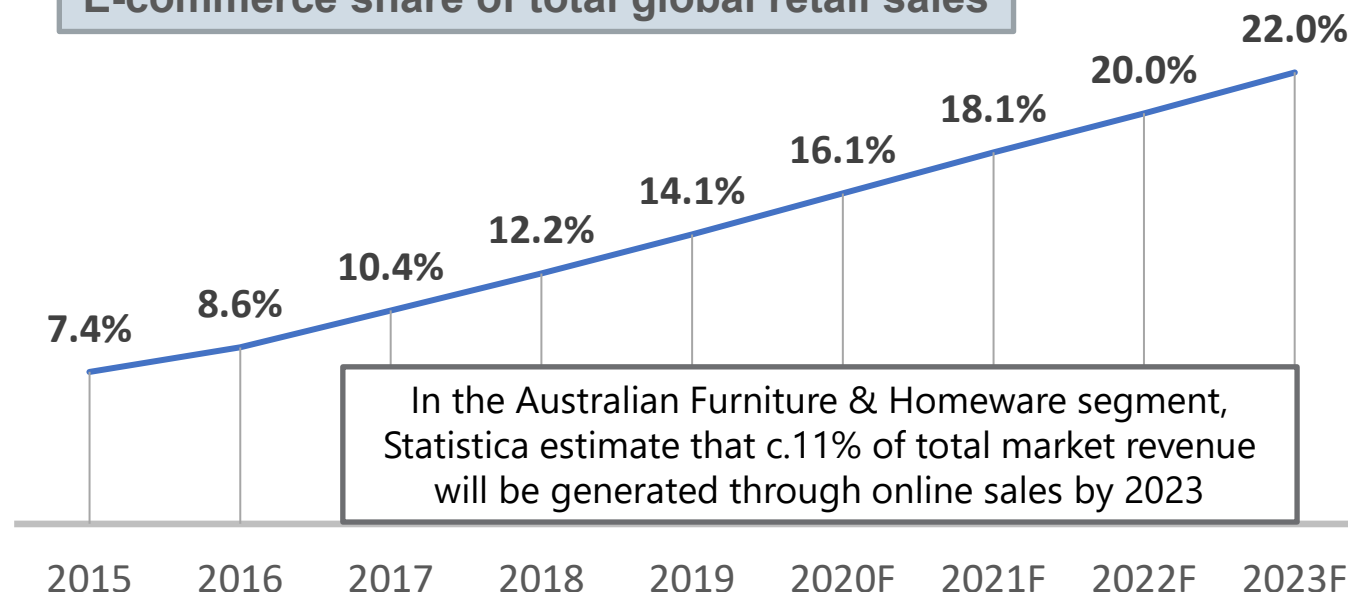
- ▶ Tickets (Airlines, events, etc)
- ▶ Books/Music
- ▶ Electronics
- ▶ Apparel / Shoes

### Less likely to transact online

Anything you like to see, hold, smell, or taste before you buy!

- ▶ Cars
- ▶ Real estate
- ▶ Home category items
- ▶ Luxury items / Jewellery

## E-commerce share of total global retail sales



Source: Statistica, August 2020

## The “less likely” categories are all achievable, but complex

Improving consumer confidence to buy these categories online requires

- ▶ New platforms
- ▶ New shipping capabilities
- ▶ New systems
- ▶ New technologies

**and STORES!**



## Omni-channel

*“The future was always going to be omni-channel. Pundits have been prematurely predicting this for many years, but it is finally happening.*

*There is a strange belief in certain circles that the future will be e-commerce only and that brick and mortar stores have no value.*

*This is strange because the world’s largest, most sophisticated e-commerce companies such as Amazon, Alibaba, JD.com and Wayfair are all now opening stores. Lots of stores.”*

**Gavin S.Baker**  
**Managing Partner and CIO at Atreides Management, LP**



## COVID-19

*“I believe the biggest long-term beneficiaries of COVID will prove to be category leading brick and mortar retailers.*

*Many of the perceived COVID winners such as e-commerce, videogame and streaming media companies have simply been pulled a few years forward into a future that was inevitable.*

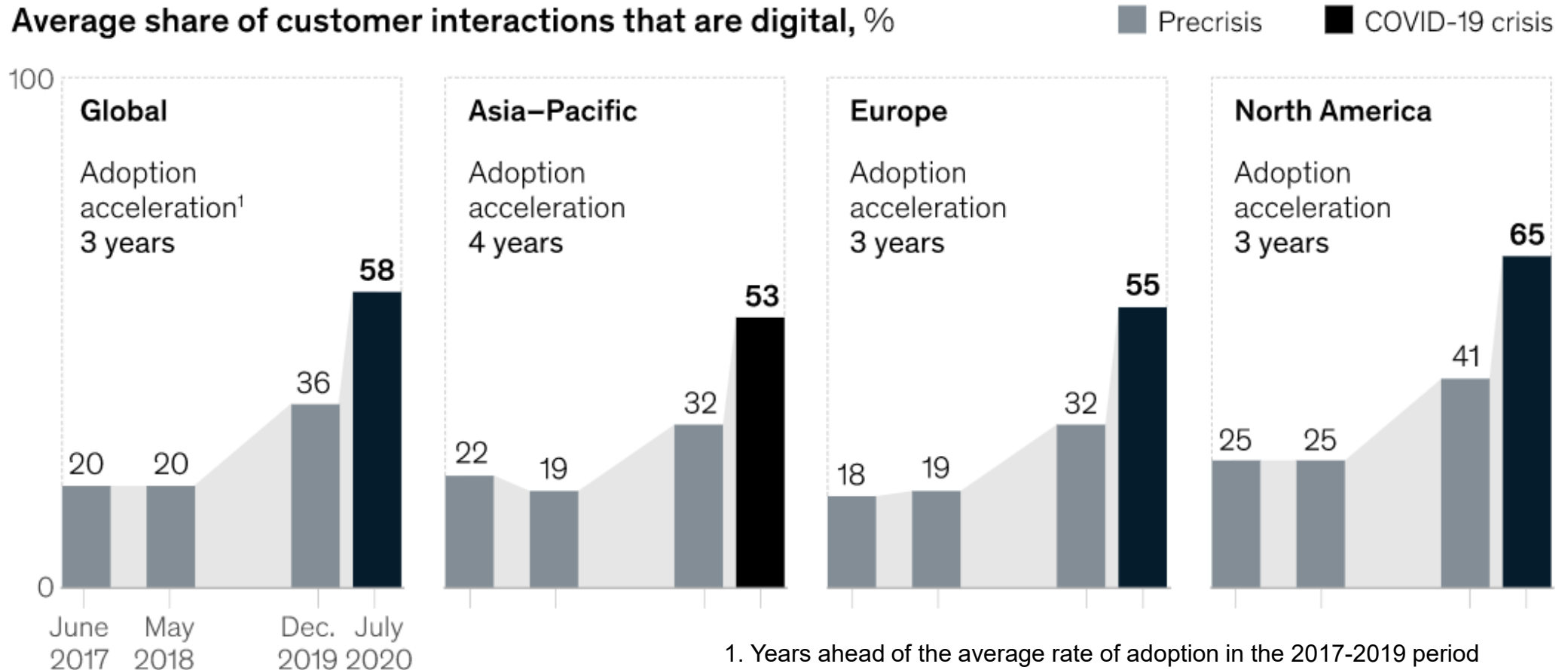
*Their destiny did not change, whereas the future for category leading “brick and mortar” retailers has changed dramatically as a result of COVID, more so than for any other business of which I can think.”*

**Gavin S.Baker**  
**Managing Partner and CIO at Atreides Management, LP**

# The impact of COVID-19 – an acceleration in online B2C interactions

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According to a recent McKinsey Global Survey, COVID-19 accelerated the adoption of B2C online interactions by 3-4 years and most of those surveyed expect this new level to stick



Source: McKinsey & Company The online survey was in the field from July 7 to July 31, 2020, and garnered responses from 899 C-level executives and senior managers representing the full range of regions, industries, company sizes, and functional specialties.



## Challenge #1 – Customer demographics - the rise of Millennials and Gen Z \*

### Baby boomers (traditional consumers) are in decline

- ▶ By 2025, Millennials will represent c.75% of the Australian workforce

### Millennials are different!

- ▶ Many are disillusioned
- ▶ Prefer to spend money on experiences over products
- ▶ They are infinitely more discerning and informed customers
- ▶ They are sceptical of business motives and trustworthiness
- ▶ They will prioritise and support companies that align with their values
- ▶ They are highly technology literate

### Implications for retailers

- ▶ We are now selling both a product AND an experience
- ▶ Loyalty is harder to come by
  - Need to deliver more than product and price
  - Brands need to have a bigger purpose and sense of community
- ▶ For retailers the implications go beyond customers
  - Millennials have the same expectations of their employer

There is an opportunity to create customer loyalty by thinking beyond the basics of retail and mass consumerism.

\* Millennials are those born 1980-1994 (currently 26-40 years old) and Gen Z born 1995-2015 (5-25 years old)

Challenge #2 – Technology continues to advance at unparalleled speed and the technology landscape for retailers is complex

## Near term (Now to 5 years)

New technologies (which will ultimately need integration) include:

- ▶ **Augmented reality**
  - Consumers can use their smartphones to bring product to life and see what it might look like in their homes, on their tables or walls
  - Can provide in-store navigation and product information
  - Contactless trialing of products (particularly clothing)
- ▶ **The internet of things and connected devices**
  - e.g. Amazon Go in the US (Enter the store with your smartphone, pick items off shelves and just walk out – no contact checkout/billing)
- ▶ **Sensor-driven supply chain and packaging innovations**
  - Provides retailers with end to end real-time information about their inventory at an individual item level from suppliers through to customers
- ▶ **Delivery / fulfilment solutions**

## Longer term (5-10 years)

- ▶ **Virtual reality**
  - Fully immersive virtual experience (e.g. visit a virtual store from your armchair and browse a personalized product display curated just for you)
- ▶ **Artificial Intelligence / Big data**
  - Likely to be the most profound technology to change every aspect of retail
  - Will allow a retailer to anticipate a customer's needs even before they personally interact with the brand

The customer experience should drive a retailer's technology decisions, not the other way around



How Adairs is positioning  
itself for this future



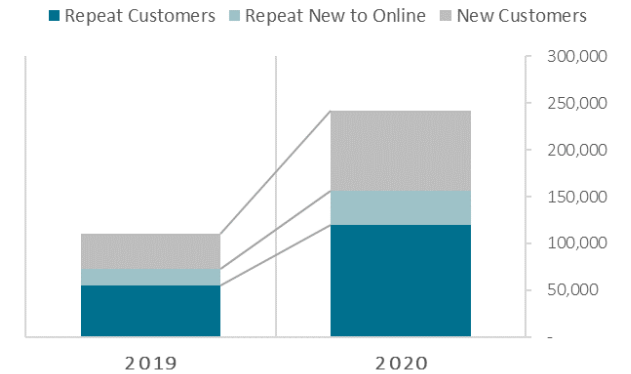


COVID-19 has accelerated Adairs online penetration and growth rate with long term benefit to be realised as new customers return and shop both our channels.

- ▶ The combination of stores and online delivered FY20 sales growth despite the impact of COVID-19
- ▶ As more customers become “omni” in their shopping preferences we expect to win online market share as seen in Q4.
  - Significant increase in new online customers +124%
  - 15% of sales were to existing customers shopping online with Adairs for the first time
  - Over 30% of sales during the store closure period were to new customers
  - Material upside remains given 63% of our Linen Lover members have not shopped Adairs online
- ▶ Engaged Linen Lover members drove store sales upon their re-opening
  - Communicate directly with individual members as their preferred store re-opened
  - Repeat customers in store up 13% in June
- ▶ Well placed for trend to continue as COVID-19 accelerates customers shift to omni-channel yet highlights importance of stores and online

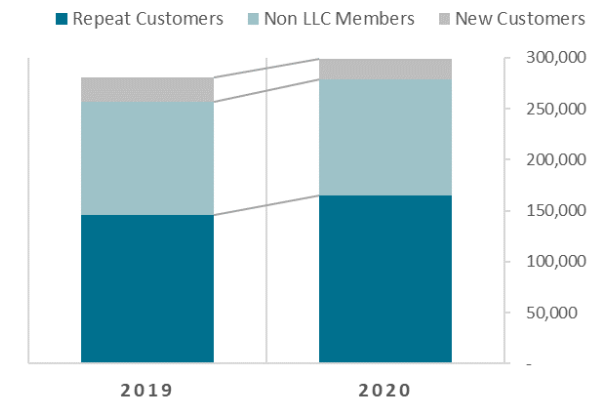
## 1 *Strong online customer growth*

ONLINE CUSTOMERS - Q4



## 2 *Some Customers love to shop in store*

IN-STORE CUSTOMERS - JUNE







## “Home” is better with Stores

### Inspiration and discovery

- ▶ Curating a home is a process of discovery, inspiration and change
  - best done when items can be readily viewed alongside each other
- ▶ Customers often don't know exactly what it is they are after in terms of look
  - searching the web can overwhelm
  - curation and co-ordination are features of our channels

### Customer service

- ▶ An experienced, customer-friendly store team can
  - create / inspire customer's vision
  - deliver a personalised and tailored experience
  - help cross-sell and add value
  - increase sales conversion and loyalty
- ▶ Majority of Linen Lover sign-ups and renewals occur in-store
- ▶ Stores provide additional customer service options

### It's the real thing

- ▶ Being able to touch and feel a product is very important to many Home customers
  - allows them to better assess quality and visualize how the product will look in their home
  - Stores bring products and looks “to life”
  - Customers can browse instore and shop online, and vice versa

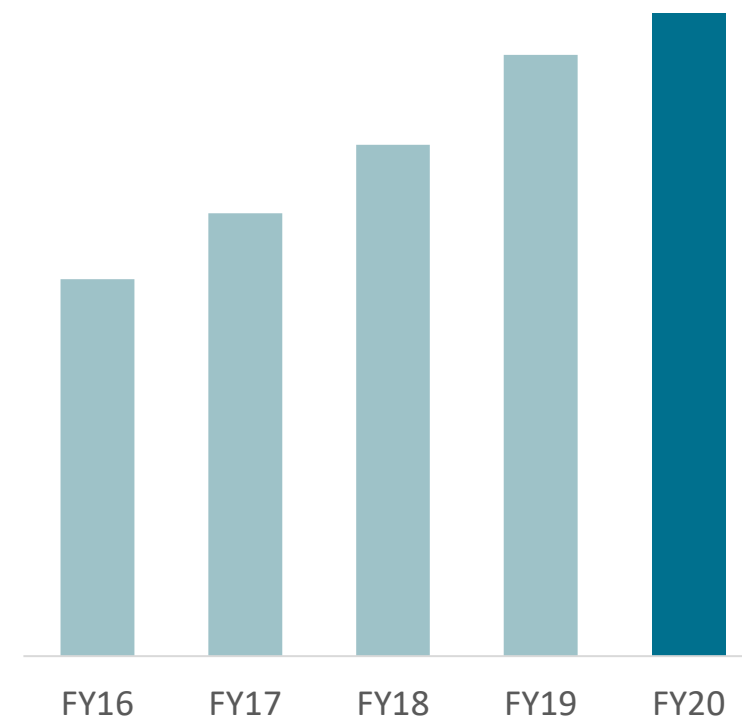
Our Linen Lovers Club loyalty program is a fundamental growth platform - accounting for 75% of all sales (ex Mocka) with 800k+ highly engaged members and membership growing at a 14% (3-year CAGR)

- ▶ Launched in 1995, Linen Lovers is one of Australia's oldest loyalty programs and a key driver of Adairs' success
- ▶ In contrast to most loyalty programs, Linen Lovers pay for their membership:
  - enhances member loyalty with a signalled intent to shop at Adairs again
  - enhances our customer knowledge
  - supports cost of the program
- ▶ Avg transaction value for a Linen Lovers member is 1.5x higher than a non-member

## Loyalty Value Proposition

- ✓ \$20 membership fee for 24 months membership
- ✓ \$20 voucher (min spend \$50) on next purchase
- ✓ 10% off full price / 5% off sale
- ✓ Exclusive Linen Lover offers and bi-annual shopping events
- ✓ Free online delivery and extended return terms

**Active Linen Lover members  
(year end balance)**





1

Omni is a true “customer-first” model where retail is driven by customer preferences

## Channel Optimisation

- ▶ We want to empower our customers to shop any way, anywhere, any time they choose
- ▶ Adairs values all channels equally

## Improved Customer Experience

- ▶ We gain a complete understanding of each customer
- ▶ Allows personalisation of the customer relationship

## Improved Loyalty

- ▶ Personalisation builds a relationship, which drives loyalty
- ▶ Channel freedom (ease of shopping) also drives loyalty

## Customer Diversification

- ▶ Different channels create different leads and opportunities
- ▶ Not all customers are omni but we seek to (and can) capture them all

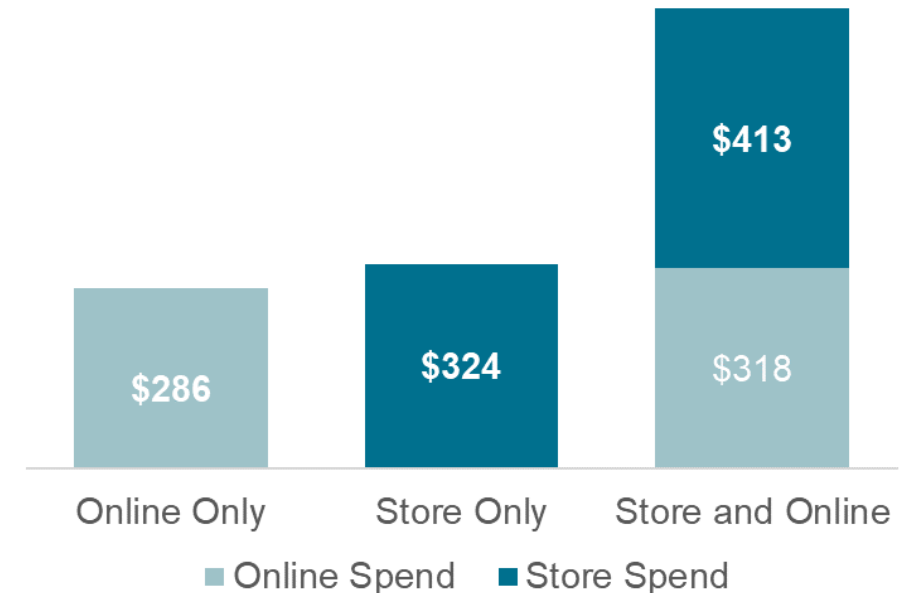
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Customers that engage with Adairs on multiple channels:

- ✓ make purchases more often; and
  - ✓ spend more with each purchase
- than those who only engage via one channel



Active Member Annual Spend (\$) in FY20



Our current business model is proven, resilient and offers material scope to grow

## 1 Proven and resilient business model

### Vertical supply chain

- ▶ Greater control (range/quality/cost/timing)
- ▶ More agile and responsive to changing markets
- ▶ Significantly higher gross margins / profitability

### Strong brands (that we own and control)

- ▶ Lower cost of customer acquisition and retention
- ▶ Brand and product exclusivity
- ▶ Higher margins

### Large and loyal customer base

- ▶ >800k paid up and highly engaged Linen Lover members

### High exposure to online growth

- ▶ ~35% of group sales are now online or omni (after annualising Mocka)





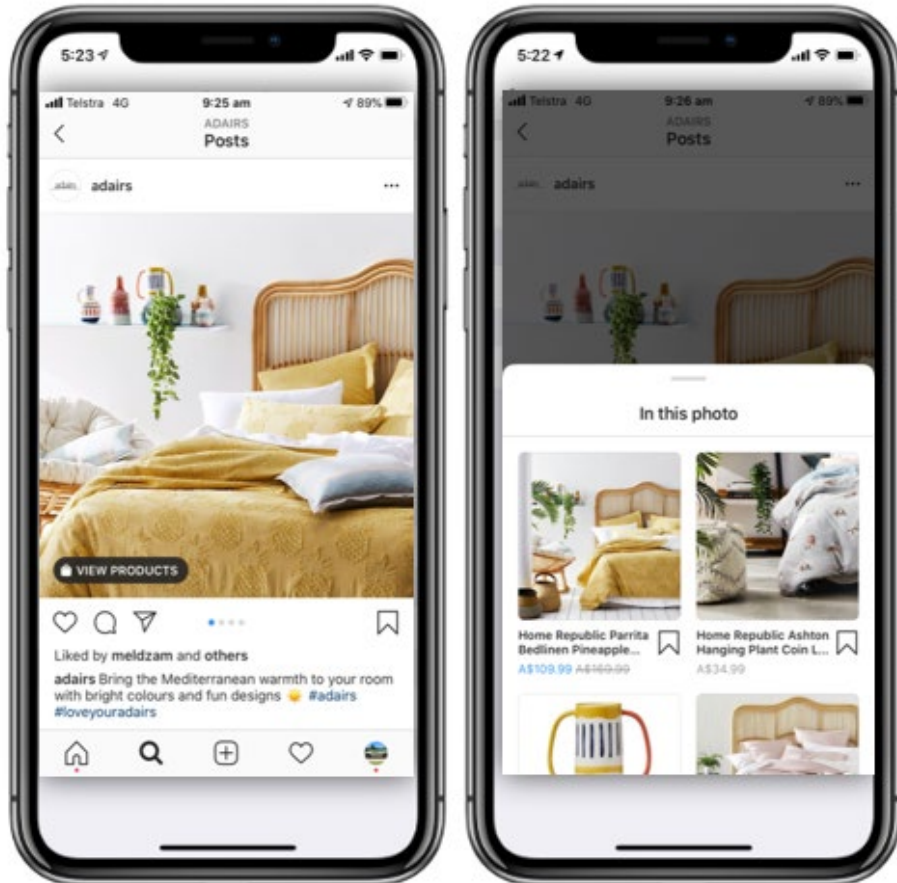
Our stores are key to being omni and retain significant growth potential

## 2 Profitable store formats

- ▶ All Stores are profitable with relatively short lease terms
- ▶ Larger stores are more profitable
- ▶ Significant upsizing opportunities remain within the portfolio
  - showcase more products / categories
  - drives increased store contribution
- ▶ Profitable new store opportunities remain
- ▶ Provide a valued and trusted engagement point with our customers



Our digital strategy was the engine room for growth in FY20 and this will continue well into the future



## 3 Digital transformation

### Development of our digital strategy & channel

- ▶ Accelerating our digital transformation through additional investment in customer acquisition, customer experience, platform and team
- ▶ We are actively exploring and selectively trialling new technology
  - augmented reality
  - instore devices to showcase range
  - single view of inventory
  - customer traffic analytics in store and online
  - online chat
  - call and collect services and express delivery options
- ▶ Adairs/Mocka cross-learning, benefitting both
- ▶ Omni customers are the most valuable so getting digital right is critical

Mocka is a highly complementary and profitable pure play online retailer with significant market opportunities



## 4 Mocka

- ▶ Australian brand awareness is growing rapidly
- ▶ Cross-promotion opportunities being trialled
- ▶ Expansion of Australian warehouse facilities being fast-tracked to support growth
- ▶ Low market share in a very large category
- ▶ Product category expansion
- ▶ Capitalising on increased search activity during COVID-19

COVID-19 has accelerated Mocka's brand recognition and growth rate, particularly in Australia

mocka



Our new NDC will assist in enabling our digital strategy and delivering profitable growth for the next decade

## 5 Omni Supply Chain Strategy

### New National Distribution Centre

- ▶ DHL to operate – we will focus on customers and product
- ▶ Faster and more efficient deliveries – direct or via stores
- ▶ c.\$3.5m cost savings p.a. from FY22

### Investing in:

- ▶ Single view of inventory
- ▶ Digital integration allowing customers to shop how they choose
- ▶ Enhanced delivery options



THANK YOU.  
ANY QUESTIONS?

