



Release to the Australian Securities Exchange

Adairs Limited

Unaudited FY20 results

EBIT⁴ up 39.7% to \$60.7m driven by strong sales and margin growth

10 August 2020

Adairs Limited (ASX: ADH)

Adairs today released its unaudited FY20 results.

Adairs has been able to deliver excellent financial and operational results despite the challenges and uncertainties created by the COVID-19 pandemic. The strength of the Company's brands and business model have been tested through this period, and the results demonstrate the effectiveness of the Company's strategy and operational agility. FY20 also saw us announce the acquisition of Mocka in December 2019, which has continued to perform strongly under Adairs ownership.

FY20 (vs FY19) highlights:

The FY20 results were achieved despite nation-wide store closures in April/May 2020 and the closure of our New Zealand online business (Adairs and Mocka) in March/April 2020 ¹.

- Group Sales up 12.9% to \$388.9 million
 - Adairs sales +4.5% (Online +61.4%, Stores -7.3%; Stores LFL +3.9%²)
 - Mocka sales +50.2%³
 - Group online sales of \$124.2 million, 31.9% of group sales
- Underlying Adairs Gross Margin +226 bps to 61.4%
- Mocka's performance³ is well ahead of our expectations with sales and EBIT growth accelerating across the second half of FY20
- Underlying Group EBIT⁴ up 39.7% to \$60.7 million (FY19 \$43.4m)
- Statutory NPAT \$35.3m up 19.0% and EPS 21.0cps up 17.3%
- Net debt of \$1.0m (down \$7.2m from \$8.2m at Jun-19), notwithstanding incremental borrowings of \$48m to fund Mocka acquisition in Dec-19
- Adairs Inventory (down 18%) is clean and stock turns improved
- Final dividend of 11.0 cents per share (fully franked) declared, representing 72% of underlying NPAT for 2H FY20

¹ Australian stores were closed from 30 March and re-opened progressively from 7 May to 29 May. In FY19 this period represented circa 13% of total store sales. New Zealand stores closed on 24 March and re-opened on 14 May. Mocka NZ and Adairs online business in NZ were closed from 25 March to 28 April due to NZ Government restrictions.

² For the period of COVID-19 related store closures, like for like sales growth ("LFL") has been calculated on a store by store daily basis (where only stores open on the same day in each corresponding period have been included).

³ Mocka contribution was 30 weeks (acquired in December 2019). Historical comparative data is for information only.

⁴ Underlying EBIT and NPAT excludes the impact of AASB16 and costs associated with the acquisition of Mocka



Commenting on the FY20 results Managing Director and CEO, Mark Ronan, said:

“We have seen strong trading since re-opening our stores and websites throughout May, which has continued up to today. Our results confirm the strength of our brands and the competitive advantage our omni-channel model provides in these volatile times. The acceleration in online penetration and growth rate brought about by COVID-19 restrictions has long term benefits for us as more of our customers shop across our brands.”

Adairs performance (excluding Mocka)

Strong like-for-like sales growth of 15.9% was driven by our omni-channel model, high engagement from our Linen Lovers members, the continued success of our core strategies and the increasing focus of customers on their home, particularly during the COVID-19 restrictions.

Our online sales grew by 61.4% to \$95.2 million. While this channel clearly benefitted from store closures in April/May, our online business performed strongly across the entire year. Adairs online sales accounted for 26.5% of total sales (up from 17.1% in FY19).

Store like-for-like sales were up 3.9% after adjusting for the period where our stores were closed due to COVID-19. Store like-for-like sales in June once all stores re-opened was 18%, whilst online continued to trade very strongly with sales in June up 66%.

Throughout the year we continued to optimise our store portfolio, opening 5 new stores, closing 3 stores, upsizing 4 and refurbishing 2 stores. Our store rollout and upsizing strategy is delivering healthy profit growth and return on investment, with all stores increasing their sales and profitability following upsizing.

Importantly, this strong sales growth was supported by an improving underlying Gross Margin rate, which increased by 226bps to 61.4%. This was achieved through a coordinated program of sourcing and retail pricing initiatives combined with a focus on reduced depth and length of promotional activity, which collectively more than offset the impact of a weaker Australian dollar. Managing our Gross Margin rate will continue to be a key focus in FY21.

Strong like-for-like sales growth and improved gross margins more than outpaced the 1.8% absolute increase in our cost of doing business (CODB), such that our underlying EBIT⁴ rose by 24.3% to \$54.0m.

The increased CODB reflected our investment in initiatives to support future growth across key areas of our business including our online platform, supply chain capability and the executive leadership team.

The investment in these areas enabled Adairs to effectively manage the impact COVID-19 had on the business and will reward shareholders as we continue to build upon our omni channel capabilities. Our CODB benefitted from the receipt of JobKeeper subsidies, which have contributed materially to maintaining the employment of many of our team members. Of the \$11.3m of wage subsidies received during Q4, more than half was passed through to team members who had been stood down or whose hours were less than the value of the subsidies. The company's CODB was reduced by \$5.3m as a result of wage subsidies received for team that continued to work.

⁴ After removing the impact of AASB 16 (Leases) and costs associated with the Mocka acquisition



We finished the year with a lean inventory position, 18% lower than FY19, as a result of deferring and cancelling inventory orders throughout March and April in response to the COVID-19 pandemic, and the strong sales experienced throughout the fourth quarter. Inventory will return to more normal levels by early October, with inventory management remaining a focus throughout FY21 given uncertainties around the trading environment.

Mocka performance

In December we completed the acquisition of Mocka, a vertically integrated pure-play online retailer of home and living products operating in Australia and New Zealand.

Since acquisition, Mocka has performed above our expectations in terms of both sales and profitability. The COVID-19 pandemic resulted in the Mocka New Zealand business being unable to trade for 7 weeks during Stage 4 restrictions in New Zealand, whilst the Australian business traded throughout the period. Sales over the 30 weeks of Adairs ownership in FY20 were up 50.2% over the prior corresponding period⁵ to \$29.0 million.

Across the whole FY20 year, part of which was not under Adairs ownership, Mocka delivered total sales of \$45.9 million, representing total growth of 30.4% over FY19. Assuming a full year of ownership of Mocka in FY20, the group's total online sales would have represented 34.8% of total group sales.

During the 30 week ownership period Mocka's strong sales growth has been achieved at the same time as an improving Gross Margin rate, which increased by 250bps over the prior year. The strong sales growth and improving gross margin rate delivered an underlying EBIT of \$6.7 million for the period of Adairs ownership.

We are pleased with the transition Mocka management have made to life with Adairs, where they continue to lead a highly efficient and customer focused organisation, achieving impressive and sustainable growth.

National Distribution Centre

In February we announced the completion of the review of our domestic supply chain. We have appointed DHL as our 3PL partner to operate a new purpose-built National Distribution Centre (NDC).

The NDC is a key component of our integrated omni-channel strategy to better enable customers to shop Adairs how, where and when they choose. The new facility will have the capacity and flexibility to support our business growth for the next 10 years across all channels. Consolidating our multiple DC operations into a single NDC will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods.

Construction of the Melbourne-based NDC is underway with annual savings of c.\$3.5m per annum anticipated from FY22.

⁵ For information only – Adairs did not own Mocka in FY19



Strong cashflow and balance sheet

The acquisition of Mocka in December included an upfront cash payment (A\$42.5m) which was funded through an increase in Adairs' group term debt facility. The excellent work undertaken by the business to actively manage cash during the fourth quarter, the support of our major suppliers, landlords and business partners, the cancellation of the interim dividend and the strong sales results delivered a very strong cashflow result for 2H FY20.

This strong cashflow has seen our net debt⁶ fall significantly, from \$46.3 million at Dec-19 to \$1.0 million at Jun-20. The company has complied with all of its bank covenants and continues to have significant headroom. Finance facilities of \$96.5m are available until March 2023.

We expect that Adairs and Mocka will collectively re-invest circa \$15m in working capital through the 1H of FY21 to reset inventory positions and drive continued sales growth which will be partially funded by an increase in debt.

Operational and trading update

On 4 August 2020 the Victorian Government made public health and safety directions that required Adairs to close 43 stores in the Greater Melbourne area for a period of six weeks. Our DC operations and online channel remain operational after complying with the additional restrictions. In most instances our Customer Support Office team have transitioned to working from home where possible.

Based on the previous store closure period and our experience to date we expect to see a significant increase in online sales into the Greater Melbourne area, reducing the impact the closure of these stores may have on group sales and profitability.

For all other areas Adairs continues to operate its store network with processes and protocols in place to support the safety and wellbeing of our team and customers. Mocka's Australian operations are based in Brisbane and remain unaffected.

For the first 5 weeks of FY21 sales have remained well ahead of the prior year. Adairs Online sales were +103.2%, Mocka +46.8%, while like-for-like store sales were +15.8%.

Dividends

The Board's decision to cancel the 1H FY20 dividend in March 2020 was made as a precaution to protect our shareholder's long-term interests, having regard to the extreme uncertainties presented by the COVID-19 pandemic.

Given the underlying NPAT achieved in FY20 and the strong start to FY21, the Board has declared a final fully franked dividend of 11.0 cents per share which represents a payout ratio of 72% of the underlying NPAT in H2 of FY20. The Record Date for the dividend will be 10 September 2020 with payment on 24 September 2020.

⁶ Excludes deferred Mocka consideration



Chair Succession

The Board would like to acknowledge the significant contribution of our Chair, Michael Butler, who recently advised the Company that he would not be seeking re-election at this year's AGM. Michael has led the company through its listing on the ASX, a successful transition of CEOs, the acquisition of Mocka and more recently the successful navigation of the many challenges posed by the COVID-19 pandemic.

Michael leaves the business in a strong position, and with the sincere thanks and best wishes of the Board and management. The Board are currently undertaking a search for a new Chair.

Our team and customers

Commenting on the contribution made by our team and business partners Mr Ronan said:

"I would like to acknowledge the support we received from our suppliers, landlords and business partners who worked closely with us to share the impact of COVID-19. Further we would like to acknowledge the work of the Australian and New Zealand Governments whose employment support packages enabled us to maintain the connection with and continue to pay our teams whilst they were stood down.

Our team are passionate about our business and this has never been more evident than in FY20. During the period Adairs stores were closed most of our team were asked to stand down, with a smaller group tasked with managing Adairs as an online only retailer. They did this with unwavering professionalism and understanding, ensuring that we successfully navigated the store closure period and emerged well placed to manage and capitalise on the new and evolving retail environment. Shareholders should be comforted and pleased that at Adairs and Mocka they have teams who are committed to their customers and delivering ongoing profitable growth.

Conference Call

A conference call for investors and analysts to discuss this announcement, hosted by Mark Ronan (Managing Director and Chief Executive Officer) and Ashley Gardner (Chief Financial Officer), will be held at 11.00am (Melbourne time) today.

Anyone wishing to listen to the call are required to pre-register which can be done by clicking on the link below. You will be given a unique pin number to enter when you call which will bypass the operator and give you immediate access to the briefing.

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

If prompted, please provide the **CONFERENCE ID: 10009290**.

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



ENDS

This announcement has been approved 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 and home decoration products. We own and operate two businesses in the category, Adairs and Mocka. Both businesses 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

About Adairs

Adairs is a leading specialty 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. Our 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, a wholly owned subsidiary of Adairs, 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