

Adairs Limited Annual General Meeting

26 October 2020



Michael Butler

Chairman





Michael Butler (Chair)



Trent Peterson



Kate Spargo



Kiera Grant



Simon West

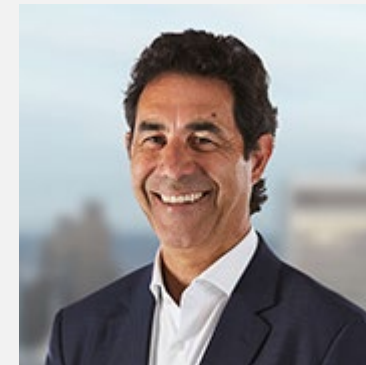


David MacLean

Non-executive Directors



Mark Ronan, MD&CEO



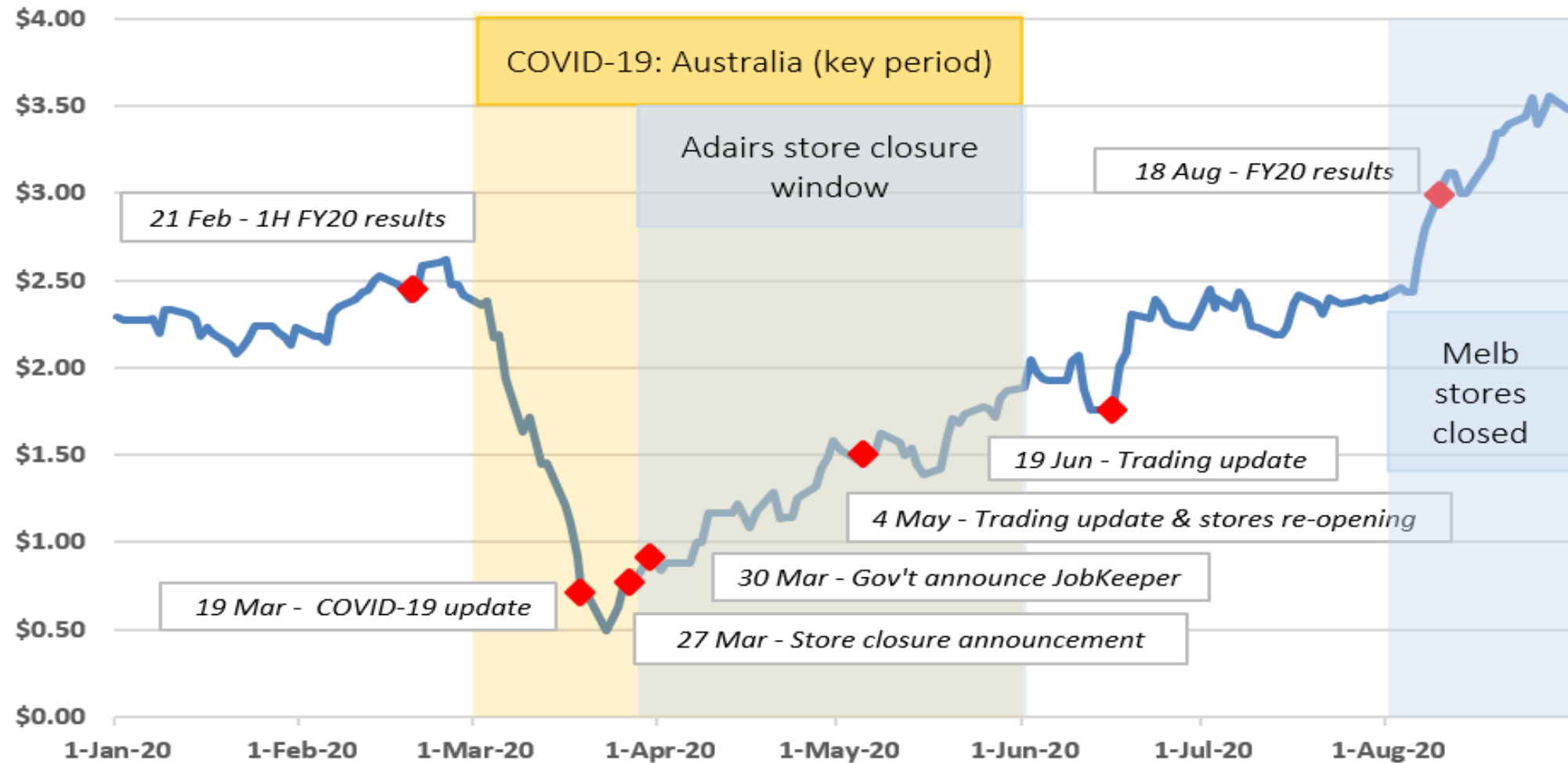
Michael Cherubino

Executive Directors

 Independent

Company secretary: **Fay Hatzis**

Share price performance during key COVID-19 period

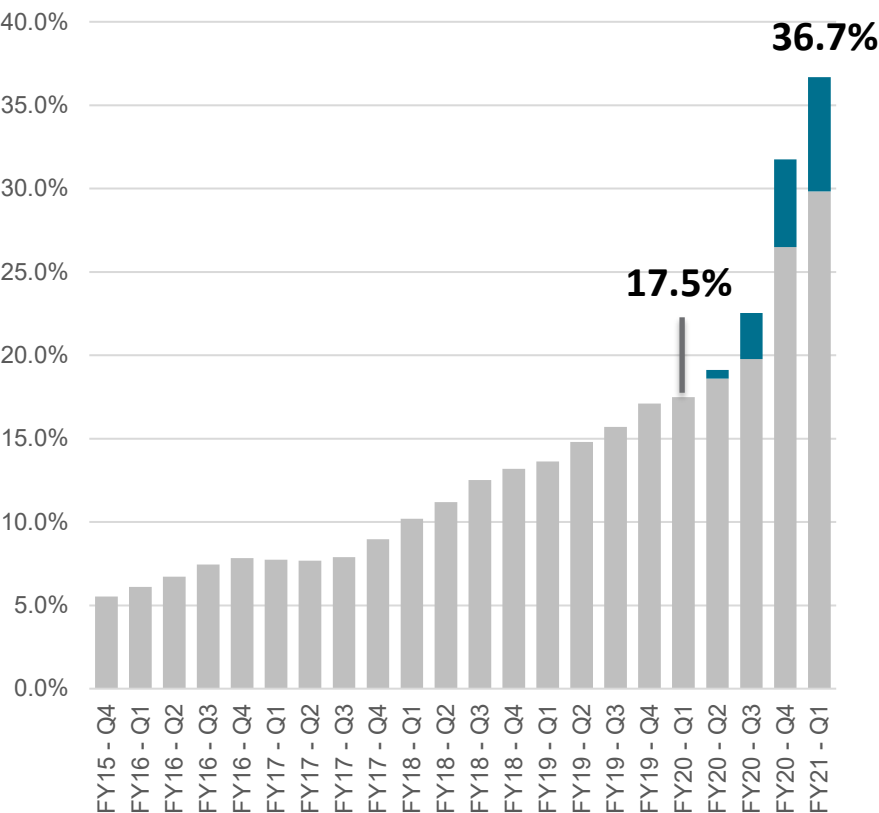


CHAIRMAN'S REPORT



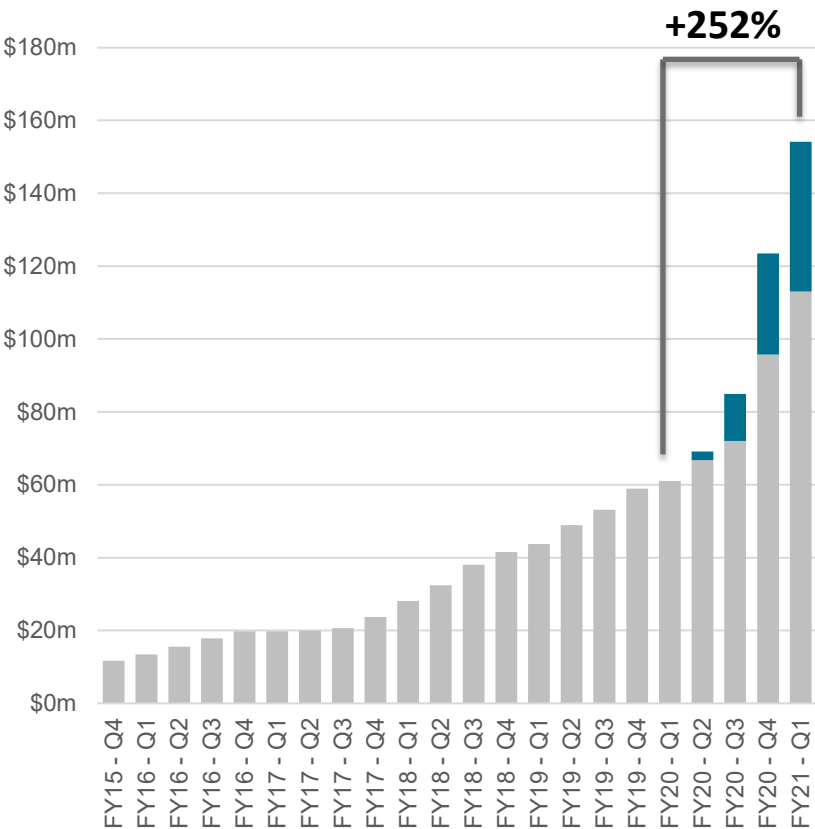


Group online sales % ¹
(rolling 12 months by quarter)



Source: Adairs (unaudited)

Online sales (\$m) ¹
(rolling 12 months by quarter)



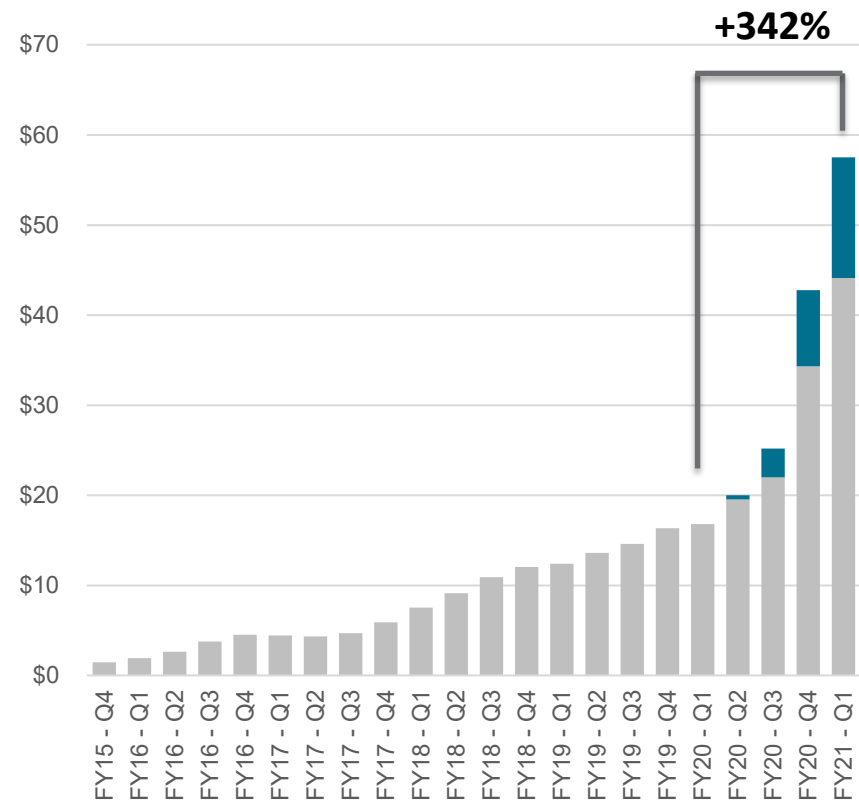
Source: Adairs (unaudited)

Adairs Mocka

Note:
1. Mocka data only covers period of Adairs' ownership (from 1 Dec 2019)



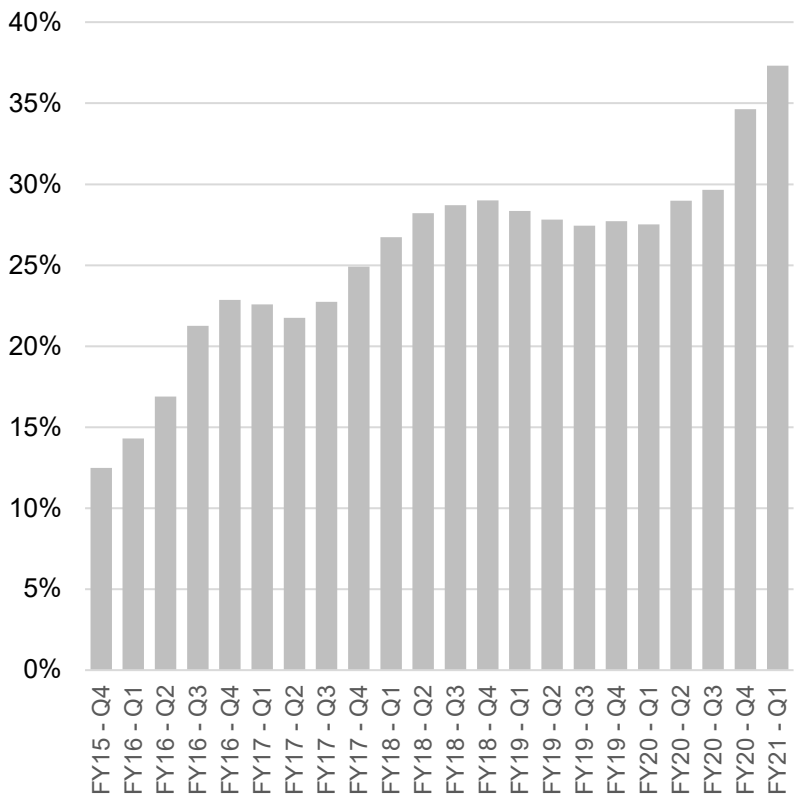
Online contribution ² (\$m)
(rolling 12 months by quarter)



Source: Adairs (unaudited)

Adairs Mocka

Online contribution margin² (% of Online sales)
(rolling 12 months by quarter)



Source: Adairs (unaudited)

Note:

- 1. Mocka data only covers period of Adairs' ownership (from 1 Dec 2019)
- 2. Online contribution equals online gross profit less all direct online operating costs such as online distribution costs, warehouse pick and pack, customer service office wages/rent and marketing (other than in-store marketing).



Mark Ronan

CEO



COVID-19 has highlighted the resilience of our model and strength of our brands

Omni-channel strategy drives record sales

- ▶ Group Sales +12.9% to \$388.9m
- ▶ Group online sales up 110.5% to \$124.2m
- ▶ Adairs online sales up 61.4%; Mocka sales up 30.4%²
- ▶ Stores sales –7.3% with LFL store sales +3.9%³

Gross Margin and EBIT sharply higher ⁴

- ▶ Adairs (ex Mocka) underlying Gross Margin +226bps to 61.4%
- ▶ Group underlying EBIT up 39.7% to \$60.7m
- ▶ Adairs (ex Mocka) underlying EBIT up 24.3% to \$54m

NPAT / EPS

- ▶ Statutory NPAT +19.0% and EPS +17.3% to 21.0 cents per share

Strong balance sheet

- ▶ Net debt of \$1.0m (down \$7.2m)
- ▶ Inventory is clean and stock turns improved

Dividend

- ▶ Final dividend of 11.0 cents per share (fully franked)

Note 1: After annualising Mocka's 30-week contribution. **Note 2:** Annual sales growth for information only. Mocka was not part of Adairs in FY19. **Note 3:** For the period of COVID-19 related store closures, LFL sales growth 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). **Note 4:** Analysis is after removing the impact of AASB 16 (Leases).



We have a very large addressable market in Australia

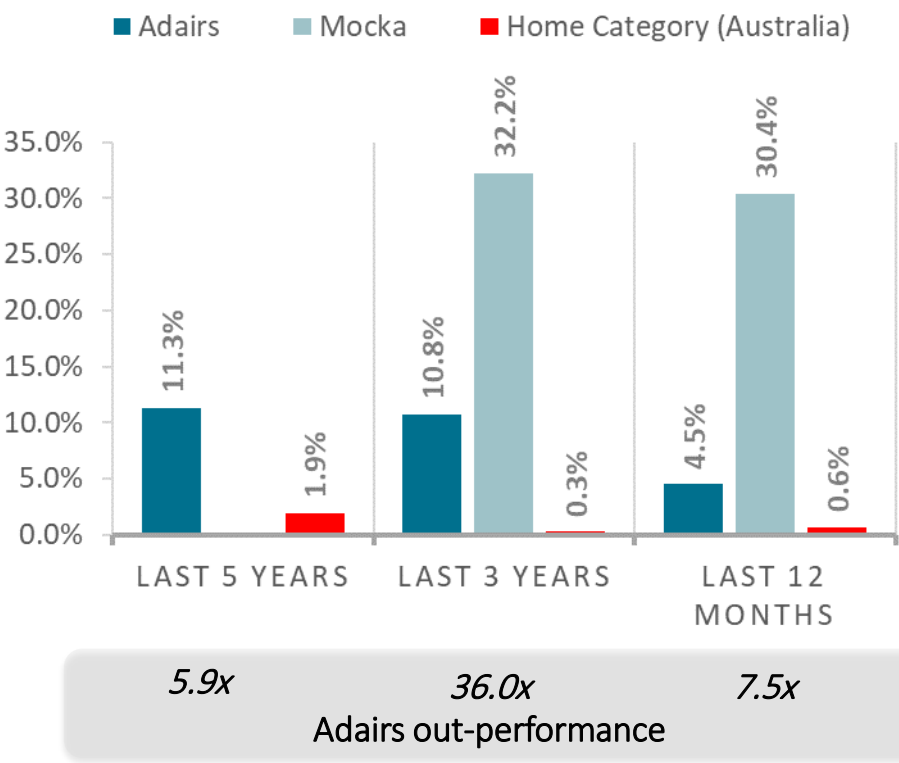
- ▶ online is expected to move towards 15%-20% of category sales in line with overseas experience
- ▶ being omni-channel means the entire market is open to us
- ▶ the opportunity in both channels is significant

Market size	A\$bn
Australian Home Furnishings	13.9
Less:	
Excluded categories ²	2.5
Total Addressable Market (TAM)	11.4
Australian Sales – Adairs & Mocka	0.4
Implied market share	3.3%

Source: Euromonitor International, Home Furnishings and Homewares System 2018, Adairs

... and we have a strong record of growing market share

Sales CAGR – Adairs/Mocka v Market (Home³)



Source: ABS (Retail Turnover by category, Time Series A3349863W), Adairs

Note 1: Comprises Home Textiles, Indoor furniture, Mattresses, Blinds & Curtains, Outdoor furniture, Barbeques, Lighting and Homewares

Note 2: Excluded categories comprise Mattresses, Lights/globes, BBQ’s and Blinds/Curtains (not target markets for Adairs)

Note 3: ABS data comprises Furniture, Housewares, Home Textiles and Floor coverings.





Our 5 drivers of future growth

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1

Proven and resilient business model

2

Profitable store formats

3

Digital transformation

4

Mocka

5

Omni Supply Chain Strategy

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

1 Proven and resilient business model

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 Linen Lover members
 - 3-yr CAGR 14%
 - Highly engaged - visit more often and spend more each visit than non-members (account for 75% of Adairs sales)
- ▶ Increasing investment in customer data analytics to further enhance returns from this program

High exposure to online growth

- ▶ Adairs online sales +61.4% and Mocka +38.8% in FY20²
- ▶ ~35% of group sales are now online or omni (after annualising Mocka)
- ▶ Winning share as customers transition to online/omni

Vertical supply chain

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

Note 1: Store omni sales include sales of stock not ranged in the store and fulfilled from the central warehouse

Note 2: For information only. Adairs acquired Mocka in December 2019.

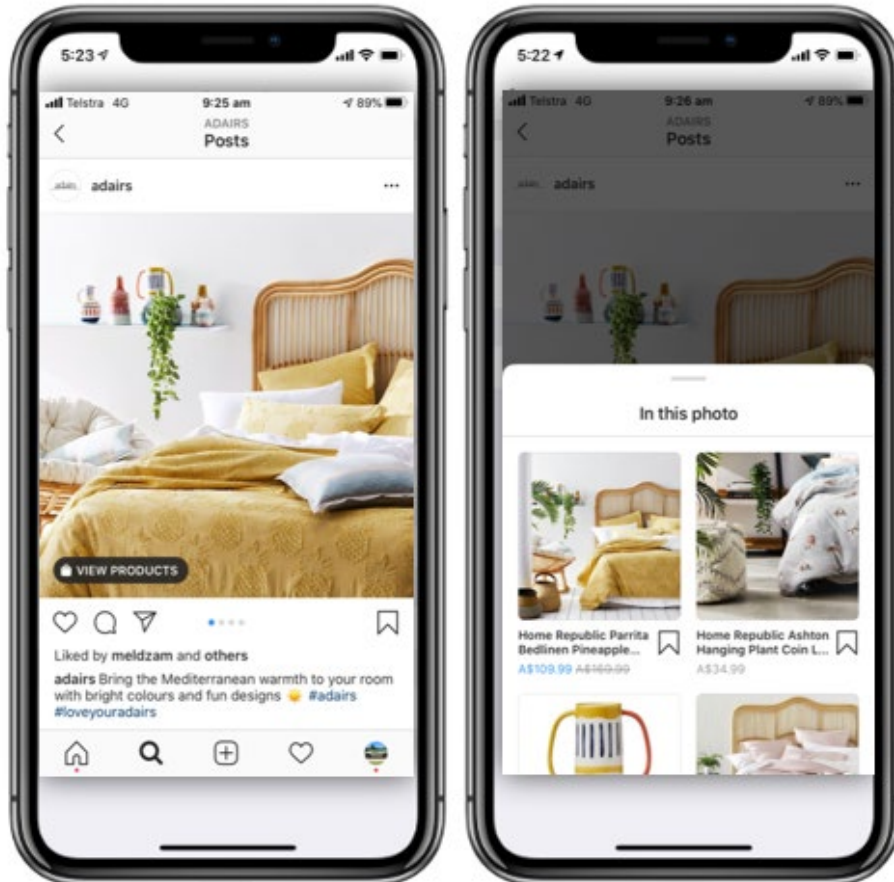




2 Profitable store formats

- ▶ 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, particularly in Australia



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

adairs



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

In the first 17 weeks of FY21

- ▶ Sales across all channels for the have been well ahead of the same period last year
- ▶ Online sales account for 41% of total sales (Adairs online 32% and Mocka 9%) versus 17% in PCP
- ▶ Underlying[#] trading gross margin for Adairs is c.600bps higher and Mocka's c.150bps higher than the same period last year
- ▶ Costs continue to be well controlled and inventory levels well placed to support Christmas

Outlook

- ▶ Given the continued uncertain macro economic environment and two thirds of the year remaining, including our major sale periods, we would caution investors against projecting this sales and margin growth across the balance of FY21.

[#] Excludes online freight costs and store distribution costs

Sales, unaudited (first 17 weeks of FY21)	Growth over PCP
Adairs stores	-0.6%
Adairs stores (LFL) ¹	+17%
Adairs online	+134%
Adairs Total sales	+22%
Mocka ²	+48%

Note 1: Adjusted for Greater Melbourne 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).

Note 2: For information only. Adairs acquired Mocka in Dec 2019.

Guidance

- ▶ Continued COVID-19 related uncertainties mean the Board cannot provide FY21 guidance at this time



MEETING RESOLUTIONS



1. Annual Financial Report

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“To receive and consider the Financial Report of the Company and its controlled entities and the Reports of the Directors and Auditor for the year ended 28 June 2020.”





“That David MacLean, being eligible, be re-elected as a Director of the Company.”

Usable Votes and Proxies Received		
	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	79,810,229	76.03%
Open/Undirected (Chairman)	123,452	0.12%
Open/Undirected (Other)	398,510	0.38%
Against:	24,638,709	23.47%
Abstained:	1,105,001	N/A



3. Remuneration Report

21

“That the Remuneration Report for the year ended 28 June 2020 be adopted.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	78,275,525	79.41%
Open/Undirected (Chairman)	126,221	0.13%
Open/Undirected (Other)	398,510	0.40%
Against:	19,768,031	20.06%
Abstained:	4,868,888	N/A



4. Approval of long term incentive grant of options to Mark Ronan

22

“That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of options to Mark Ronan as his annual long term incentive for the year ended 27 June 2021 on the terms described in the explanatory notes accompanying this Notice of Meeting.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	102,784,131	98.52%
Open/Undirected (Chairman)	126,221	0.12%
Open/Undirected (Other)	396,010	0.38%
Against:	1,024,348	0.98%
Abstained:	1,108,700	N/A



5. Approval of long term incentive grant of options to Michael Cherubino

23

“That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of options to Michael Cherubino as his annual long term incentive for the year ended 27 June 2021 on the terms described in the explanatory notes accompanying this Notice of Meeting.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	102,769,131	98.52%
Open/Undirected (Chairman)	126,221	0.12%
Open/Undirected (Other)	396,010	0.38%
Against:	1,024,348	0.98%
Abstained:	1,123,700	N/A



6. Approval of the financial assistance 24

“That, for the purposes of section 260B(2) of the Corporations Act 2001 (Cth), approval is given for the financial assistance to be provided by Mocka Products Pty Ltd (ACN 152 476 349) from time to time in connection with the Acquisition as described in the explanatory notes accompanying the Notice of Meeting dated 23 September 2020.”

Usable Votes and Proxies Received		
	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	103,853,172	99.05%
Open/Undirected (Chairman)	130,816	0.12%
Open/Undirected (Other)	398,510	0.38%
Against:	467,203	0.45%
Abstained:	1,163,000	N/A



7. Re-insertion of Proportional Takeover Provisions in the Constitution

“That the proportional takeover provisions contained in Rule 6 of the Company’s Constitution be inserted for a period of three years with effect from the date of the Annual General Meeting.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	103,739,830	98.85%
Open/Undirected (Chairman)	130,816	0.12%
Open/Undirected (Other)	398,510	0.38%
Against:	680,150	0.65%
Abstained:	1,124,545	N/A

MEETING CLOSED





Disclaimer

Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Adairs Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Adairs Limited.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.