

Adairs Limited Annual General Meeting 20 October 2021





BRETT CHENOWETH CHAIR



Brett Chenoweth
(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**

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CHAIR'S REPORT



Omni-channel strategy drives record sales

- ▶ Group Sales +28.5% to \$499.8m
- ▶ Group online sales of \$187.0m (37.4% of total sales)
- ▶ Adairs online sales +33.2%; Mocka sales +30.9%¹
- ▶ Stores sales +18.1% with LFL store sales +7.4%²

Gross Margin and EBIT sharply higher ³

- ▶ Adairs Underlying Gross Margin +520bps to 66.7%
- ▶ Adairs Underlying EBIT +98.2% to \$96.7m (22% of sales)
- ▶ Mocka underlying EBIT of A\$12.4m, +26.8%¹
- ▶ Group Underlying EBIT +97.3% to \$109.1m

JobKeeper

- ▶ Net wage subsidy benefit returned to the Government

Supply chain strategy

- ▶ New DHL-operated national distribution completed
- ▶ Annualised cost savings of c.\$3.5m p.a. (pro-rata in FY22)

Mocka

- ▶ Early payment of deferred consideration to founders
- ▶ Australian warehouse doubled in size

Strong balance sheet / clean inventory

- ▶ Net cash of \$26.0m at year end with no bank debt
- ▶ Inventory is clean and is at planned levels

Record dividend

- ▶ Final dividend of 10.0 cents per share (100% franked) taking total FY21 dividends to 23.0 cents per share

Note 1. Includes the period prior to December 2019 which was outside of Adairs ownership.

Note 2. Like-for-like (LFL) sales growth has been calculated on a store-by-store daily basis.

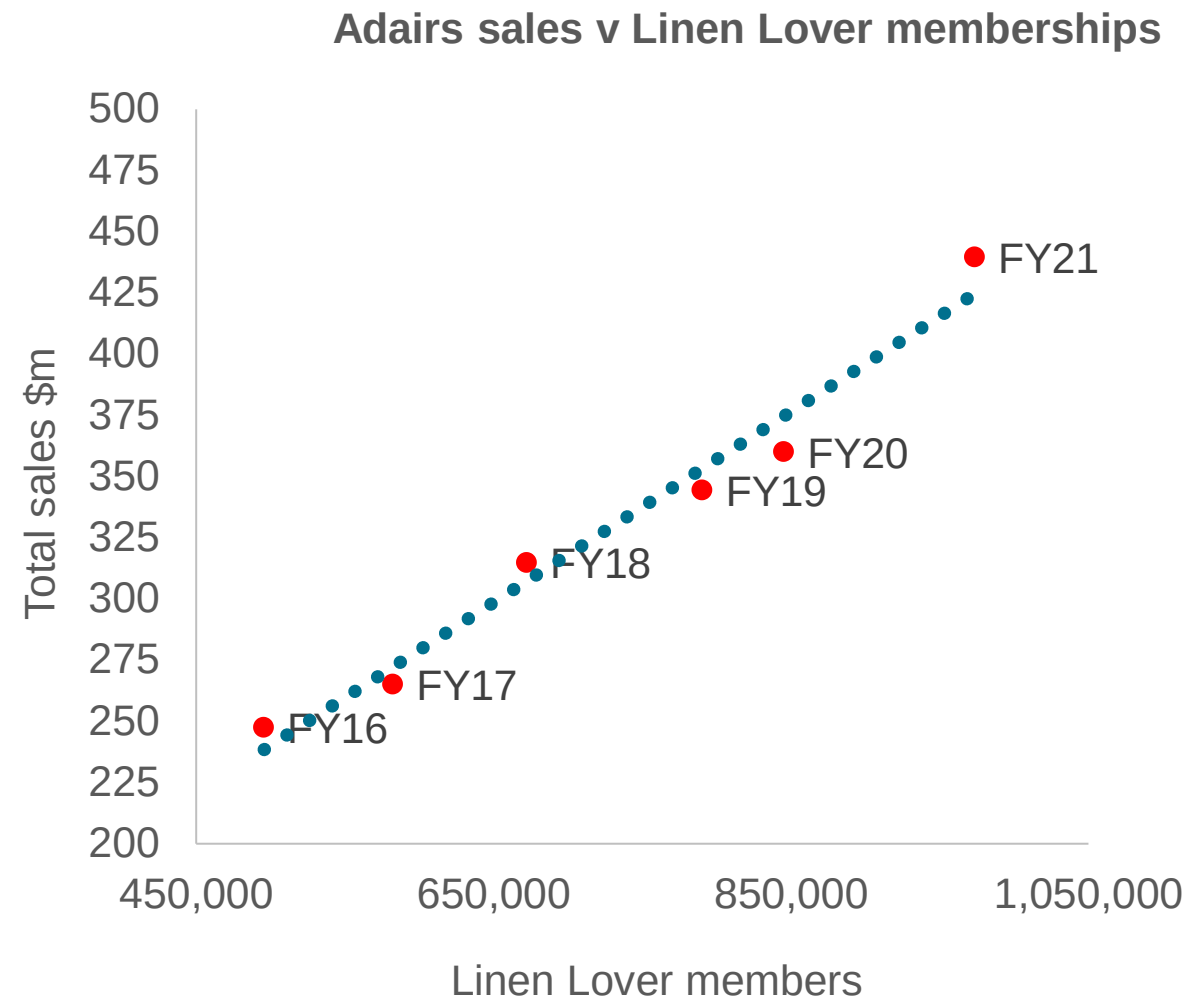
Note 3. Refer Appendix 4 of the FY21 Investor Presentation for a reconciliation of underlying and statutory results.

MANAGING DIRECTOR & CEO'S REPORT



Linen Lover membership growth is a key driver of sales. Member retention initiatives and the facilitation of online sign-ups through the upgrade of our digital platform in FY22 offer significant upside to existing growth rates

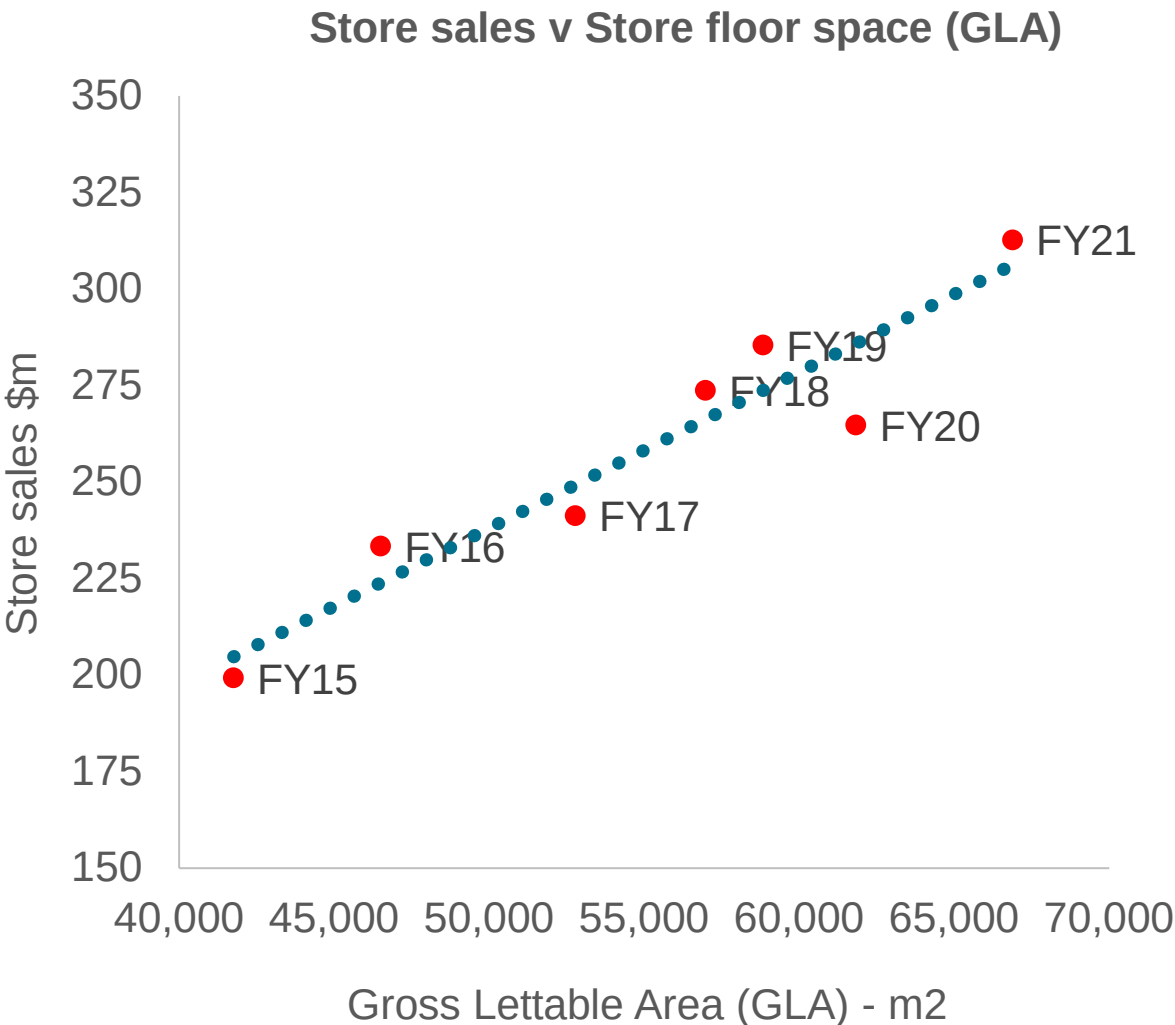
- ▶ Linen Lover members
 - account for >80% of total Adairs sales; and
 - spend c.1.5x more than non-members with each transaction
- ▶ Total Adairs sales are highly correlated to the number of Linen Lover members
- ▶ Each new member adds c.\$400 in total sales
- ▶ Average annual growth in membership numbers over the last 5 years was 14.5%
- ▶ We aim to continue to grow Linen Lover memberships by 10-15% p.a.



The relationship between store sales and retail floor space

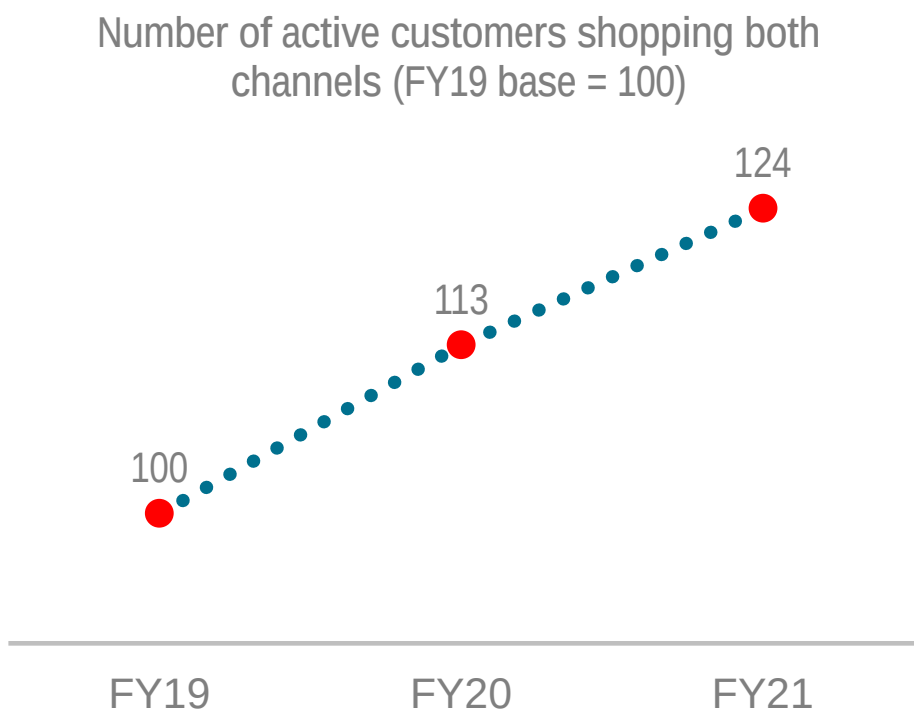
Growing store floor space through new and up-sized stores will continue to drive store sales

- ▶ Store sales are highly correlated to store floor space
- ▶ Each additional m² typically adds c.\$4k in store sales
- ▶ Average annual growth in floor space over last 5 years was 7.5%
- ▶ We expect to grow floor space by 8%+ in FY22 and 5%+ p.a. for the following 5 years through new and upsized stores

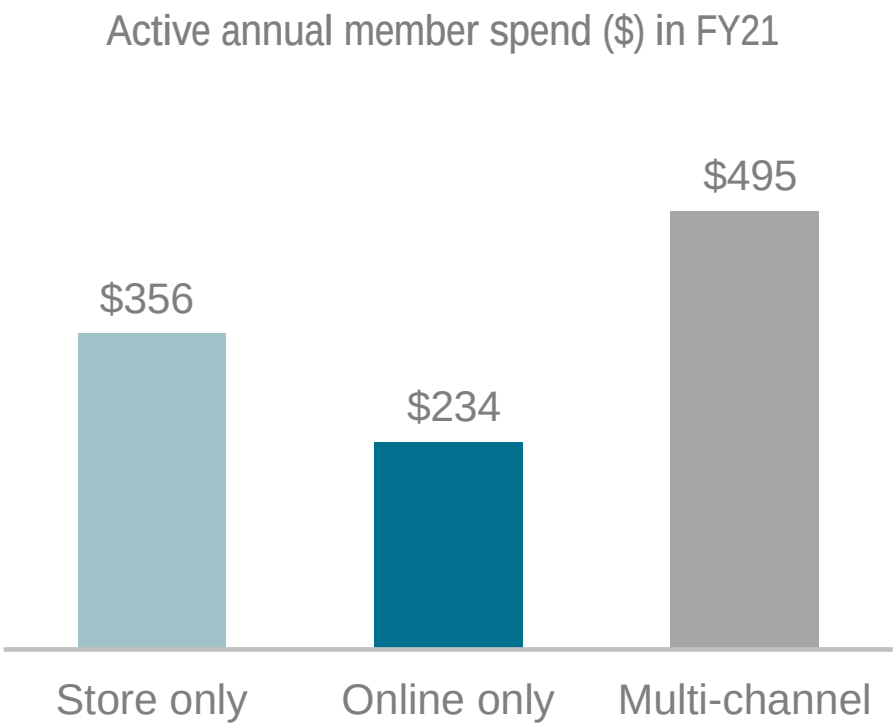


Omni customer are the most valuable and COVID has significantly increased the number of Adairs customers who now shop Adairs both online and in-store

The number of customers actively shopping across both channels is c.25% above FY19 (Pre-COVID) levels



Multi-channel customers are 40-110% more valuable than single-channel customers



1

Proven and resilient business model (with material scope to grow)

Strong brands (that we own and control)

- ▶ Lower cost of customer acquisition and retention
- ▶ Brand and product exclusivity
- ▶ Higher margins
- ▶ Success in category expansion

Vertical supply chain

- ▶ Exclusive products designed in-house
- ▶ Greater control (range/quality/cost/timing) and more differentiation
- ▶ More agile/responsive to changing conditions and consumer trends
- ▶ Significantly higher gross margins / profitability

Large and loyal customer base

- ▶ >950k paid up Linen Lover Club members
 - Highly engaged - visit more often and spend more each visit than non-members (accounted for over 80% of Adairs sales in FY21)
- ▶ c.50% of new customers acquired since COVID-19 began (Jan 2020) have now shopped with us again across one or more of our channels
- ▶ Increasing investment in customer data analytics to further enhance the value of this program for our customers and Adairs

Our multi-channel model gives us a larger TAM, significant synergy across channels, and delivers customers a superior and more flexible shopping experience

2 Digital transformation and omni-channel leadership

Development of our digital channel

- ▶ Accelerating our digital transformation through additional investment in customer acquisition, customer experience, platform and team
 - Upgrading Adairs online platform to deliver a more seamless omni-channel customer experience in 2022
 - Mocka continues to invest in new customer experiences (e.g. “Imagine” mobile augmented reality)
- ▶ Omni customers are the most valuable
 - Multi-channel customers typically spend c.110% more than online-only customers and 40% more than store-only shoppers each year
 - The number of customers actively shopping across both channels is c.25% above FY19 (Pre-COVID) levels

High exposure to online growth

- ▶ Adairs online sales +33.2% and Mocka +30.9%¹ in FY21
- ▶ Total online sales now 37.4% of total Group sales
- ▶ Adairs digital platform sales² now represent ~48% of total Adairs sales
- ▶ Winning share as customers transition to online/omni

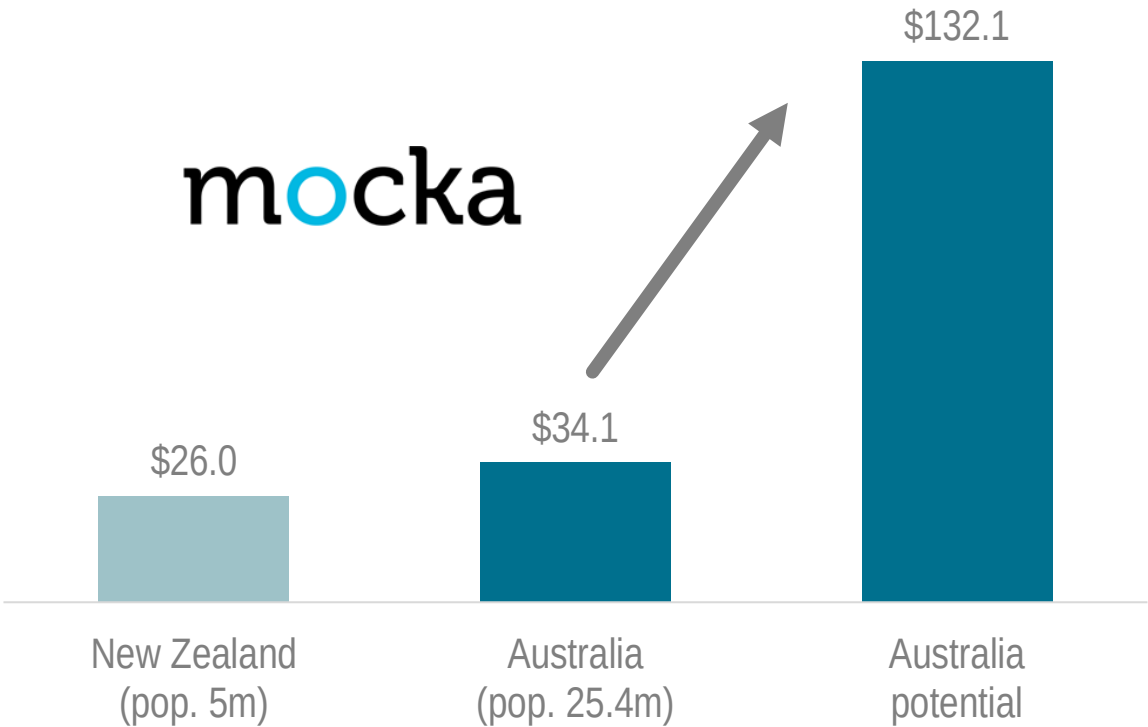
Note 1: Includes the period prior to Dec 2019 which was outside of Adairs ownership.

Note 2: Digital platform sales comprises sales from the online store plus sales of stock not ranged in store but where the order is placed by the customer within the store and fulfilled from the central warehouse.

3 Mocka growth

- ▶ Australian brand awareness growing rapidly with AU website visits +35% in FY21
- ▶ We are investing to enable future growth
 - New CEO (Vanessa Brennan) appointed
 - Early settlement of deferred consideration to founders to enable additional investment for longer term benefit
 - Australian warehouse facilities recently doubled in size
 - Australian and NZ websites re-platformed in September 2020
- ▶ Low market share in a very large category
- ▶ Product category expansion trials ongoing
- ▶ Capitalising on increased search activity during COVID-19 to increase customer database to over 550k customers

How big could Mocka Australia get if it achieved "sales to population" parity with NZ?



* Provided for illustrative purposes only



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

4 Profitable store formats

- ▶ All Stores are profitable with relatively short lease terms
- ▶ Store floor space +8.2% in FY21 via new and upsized stores
- ▶ Larger stores are more profitable and significant upsizing opportunities remain within the current portfolio. Upsizing benefits:
 - showcase more products / categories
 - average +950bp in store contribution margin post upsize
 - a typical upsized store delivers \$250-350k more profit annually after upsizing (representing a c.60% average increase in store contribution amount).
- ▶ Profitable new store opportunities remain
- ▶ Stores provide a valued and trusted engagement point with our customers



Our new NDC is now operating and 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 is the operator → our focus remains on customers and product
- ▶ Faster and more efficient deliveries – direct or via stores
- ▶ Annual savings over existing operations of \$3.5m p.a. (pro-rata in FY22)
- ▶ Delivers a local supply chain solution that supports our strategy to enable customers to shop how, when and where they choose
- ▶ Allows us to adapt to a changing mix of sales between online and stores
- ▶ Improve stock availability in stores (more frequent replenishment)
- ▶ Increase capacity and improve service levels for online and stores during peak trading periods
- ▶ Support business growth well into the future across all channels

Market perspective

- ▶ Adairs and Mocka continue to benefit from consumers' increased focus on their homes as a sanctuary, and increasingly a place of work, entertainment and education
- ▶ Travel restrictions appear likely to remain a feature for the medium term - while unfortunate, this bodes well for the home category
- ▶ The Group operates in a very large addressable market and being omni-channel means the entire market is available to us

Current environment

- ▶ While COVID-19 store closures will impact our 1H FY22 results, our performance online and in regions that have not been significantly impacted gives us confidence in
 - the appeal of our current range,
 - the underlying health of consumer spending and
 - their engagement with our brands
- ▶ we continue to see stores reopening from lockdown periods experience a strong recovery in sales

Guidance

- ▶ Given the ongoing uncertainty relating to COVID-19 the Board does not consider it appropriate to provide guidance for FY22 at this time

MEETING RESOLUTIONS



1. Annual Financial Report

“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 27 June 2021.”





2. Re-election of Director

“That Michael Cherubino, 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:	71,842,628	96.24%
Open/Undirected (Chairman)	404,983	0.54%
Open/Undirected (Other)	458,708	0.61%
Against:	1,943,946	2.60%
Abstained:	382,794	N/A

3. Election of Director

“That Brett Chenoweth, being eligible, be elected as a Director of the Company.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	73,661,687	98.71%
Open/Undirected (Chairman)	405,103	0.54%
Open/Undirected (Other)	458,708	0.61%
Against:	95,688	0.13%
Abstained:	417,023	N/A



4. Remuneration Report

“That the Remuneration Report for the year ended 27 June 2021 be adopted.”

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	54,936,737	82.93%
Open/Undirected (Chairman)	399,082	0.60%
Open/Undirected (Other)	458,708	0.69%
Against:	10,453,066	15.78%
Abstained:	3,390,655	N/A

5. Approval of long-term incentive grant of options to Mark Ronan

“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 26 June 2022 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:	61,303,835	85.28%
Open/Undirected (Chairman)	404,508	0.56%
Open/Undirected (Other)	458,708	0.64%
Against:	9,716,922	13.52%
Abstained:	455,909	N/A



6. Approval of long-term incentive grant of options to Michael Cherubino

“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 26 June 2022 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:	61,298,575	85.28%
Open/Undirected (Chairman)	406,380	0.57%
Open/Undirected (Other)	458,708	0.64%
Against:	9,719,214	13.52%
Abstained:	457,005	N/A



7. Alteration to the terms of options issued under the Company's Equity Incentive Plan

"That approval be given for the purposes of ASX Listing Rule 6.23.4 and for all other purposes to amend the terms of options which have been issued under the Company's Equity Incentive Plan to allow for a cashless exercise mechanism to be adopted."

Usable Votes and Proxies Received

	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	68,343,131	96.06%
Open/Undirected (Chairman)	406,224	0.57%
Open/Undirected (Other)	458,708	0.64%
Against:	1,939,444	2.73%
Abstained:	607,925	N/A



8. Approval of non-executive director remuneration 23

“That the maximum aggregate annual remuneration of the non-executive directors be increased by \$200,000 from \$600,000 to \$800,000 per annum.”

Usable Votes and Proxies Received		
	Votes / Proxies	% of Eligible Votes Cast (excluding abstentions)
For:	64,498,330	97.56%
Open/Undirected (Chairman)	400,108	0.61%
Open/Undirected (Other)	458,708	0.69%
Against:	754,269	1.14%
Abstained:	3,518,833	N/A

MEETING CLOSED

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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.