## Release to the Australian Securities Exchange

# Adairs Limited
# Results for the first half of FY24

**26 February 2024**

**Adairs Limited (ASX: ADH)**

Adairs Limited today released its results for the 27 weeks to 31 December 2023 (1H FY24).

Whilst sales were impacted by a challenging macro-environment, compounded by isolated stock availability and ranging issues within the Adairs business, the Group successfully delivered on its key objectives of:

- growing gross margins across all three brands;
- reducing CODB in the Adairs business despite significant inflationary pressures through a comprehensive cost-out program;
- taking operational control of the Adairs NDC with no business disruption whilst improving service levels at a lower cost;
- turning around the Mocka business with an EBIT of $3.5m for the half (LY $0.3m);
- opening two new Focus on Furniture stores;
- materially reducing net debt; and
- resuming the payment of dividends.

**1H FY24 financial summary (first 26 weeks[1])**

- Group sales of $291.4 million, down 10.1% on a comparable 26-week basis
- Improved gross margin rate (+220bps) which reduced the impact of a decline in sales with gross profit down 6.8%
- CODB down 3.9% with cost management initiatives fully offsetting inflationary pressures from higher wage rates, payroll taxes, rents and utilities
- Underlying[2] Group EBIT of $28.6 million (27 weeks: $30.9 million), down 19.3% on a comparable 26-week basis
- Statutory NPAT of $17.7 million and EPS of 10.2 cents
- Group net debt of $58.6 million, $15.4 million lower than June 2023
- Interim dividend of 5.0 cents per share (fully franked) declared and DRP remains active

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[1] 1H FY24 consists of 27 weeks, with Boxing Day falling in week 27. To facilitate a valid comparison with 1H FY23 all comparative data with prior years is on a 26-week basis for 1H FY24.

[2] See Appendix 6 of the Investor Presentation for a reconciliation of statutory and underlying results.

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

*"The first half of FY24 has been challenging given customers continue to manage their household budgets carefully, leading to lower customer traffic. It is pleasing that we have been able to deliver on our primary objectives whilst focusing on those factors within our control – making sure we continue to offer great product at an attractive price with an outstanding customer experience across all of our businesses. Each business has key priorities that will over time deliver growth in sales while ensuring our cost base is managed appropriately for the prevailing and anticipated trading environment."*

**Performance by Business**

***Adairs***

The Adairs brand recorded sales of $199.9 million, a 9.3%[3] reduction on 1H FY23, driven by lower customer traffic, inconsistent stock availability across core ranges, and a disappointing fashion bedlinen season. These were partially offset by a strong performance from the kids and furniture departments. Looking ahead, these performing departments when combined with an improved bedlinen offering and an investment in stock availability provide significant growth opportunities.

Online accounted for 26% of sales (unchanged from 1H FY23), with the introduction of 'click and collect' in Australia during the half and better service levels from the NDC supporting an improvement in conversion (up 100bps in stores and 10bps online).

Gross profit margin improved by +70bps in 1H FY24 as a result of selected retail price increases, lower import container rates and carefully managed promotional activity.

Despite underlying escalations in store wage rates, payroll taxes, rents and utilities, Adairs cost of doing business (CODB) declined by 5.3%, driven by ongoing cost efficiency initiatives and lower sales volumes.

Adairs taking operational control at its National Distribution Centre ('NDC') has gone well with results for the first four months showing a significant improvement in customer service levels over the same period in FY23. Targeted NDC cost savings are on track, falling in absolute terms (down $2.8 million net of depreciation), on a 'cost per unit despatched' basis, and as a percentage of sales (down 60bps) versus 1H FY23 levels. Savings of c.$3.5 million are expected in FY24 (v FY23) and will be at least $4 million in the 2024 calendar year as previously advised.

Two new stores were opened, three stores were upsized and three smaller stores closed which collectively delivered a +2.0% increase in gross lettable area (GLA) during the half.

Adairs underlying EBIT declined to $13.5 million (26 weeks) versus $18.7 million in 1H FY23, with reported EBIT for the 27 weeks of $16.3 million.

[3] To facilitate a valid comparison with 1H FY23 all comparative data with prior years is on a 26-week basis for 1H FY24.

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***Focus on Furniture***

Focus on Furniture ('Focus') delivered sales of $66.2 million, down 15.8% against 1H FY23[4], cycling a strong 1H FY23 (1H FY23 sales were up 20.1% on 1H FY22). Whilst traffic in stores was down 7%, conversion improved by 20bps. Delivered sales were impacted by industrial action at Australian ports resulting in an increased order book of $17.3 million at the end of the half (up 38% on June 2023).

Focus's mid-market quality product range combined with a disciplined pricing strategy delivered strong gross margin gains (+320bps) in 1H FY24. Tight control of costs resulted in a 1H FY24 EBIT of $11.7 million ($16.6 million in 1H FY23).

New store openings remain a priority, with a pipeline of opportunities being built despite the tight Homemaker market. One new store opened in 1H FY24 (Helensvale, Queensland) and a second opened on 9 February 2024 (Prospect, NSW). The Springvale store was refurbished in 1H FY24 and Essendon will be completed in 2H 2024. Focus is expecting to open up to three stores in FY25, with the target portfolio of 50+ stores remaining.

To support the growth of Focus in Queensland, Mocka's Brisbane warehouse has been reconfigured at no incremental cost to the group. This allows Focus to benefit from direct container deliveries to Queensland as well as provide better customer service to this region.

***Mocka***

Mocka achieved 1H FY24 sales of $25.3 million (marginally higher than 1H FY23). Clearing excess and underperforming inventory in FY23 enabled Mocka to deliver an improved product range for the half. This resulted in average stock holdings being materially lower (v 1H FY23) improving warehouse efficiencies and combined with more promotional discipline, led to higher average selling prices and a material improvement in both gross margin (58.2% v 47.7%) and delivered margin.

Further initiatives across the business to manage the cost base and reduce net customer delivery costs helped deliver EBIT of $3.5 million for the half (versus $0.3 million in 1H FY23). The business is now in a strong position to grow moving forward.

***Balance sheet and cash flow***

Group inventories were reduced by $4.3 million over the half (down $22.8 million since December 2022) with in-country stock levels impacted by delayed shipping, industrial action at Australian ports and elevated stock in transit at the end of the half.

Group operating cash flow of $37.9m was 10.5% stronger than 1H FY23, despite lower sales and profitability, due to improved stock turns across all brands and an increased forward order book.

Group capital expenditure of $22.2 million in 1H FY24 included $12.5 million to acquire the NDC assets as well as new stores and store refurbishment / expansion projects.

Group net debt fell by $15.5 million over the half to close at $58.6 million. This equates to c. 0.8x LTM Underlying EBITDA and provides substantial covenant headroom. The Group has total finance facilities of $135 million secured until January 2026 ($90 million) and January 2027 ($45 million).

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[4] Focus on Furniture did not deliver orders in week 27, hence no material additional revenue was recognised.

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***Trading update and outlook***

The Group continues to see customer traffic significantly lower than the same period last year and sales for the first eight weeks of 2H FY24 remain challenging. Consumers remain value-oriented, with conversion declining notably when offers are reduced. Given the material decline in sales that occurred in May 2023, management expects that the Group's comparative sales performance will improve across the second half of FY24.

| Unaudited Sales (weeks 27 to 34) | FY24 v FY23 |
|---|---|
| **Group** | **-9.6%** |
| Adairs | -9.5% |
| Focus | -14.1% |
| Mocka | +4.0% |

The Group's focus remains on managing GM% (up 200 bps over the prior corresponding period), maximizing customer sales conversion and managing CODB. The Group has hedged all of its FY24 USD purchases at A$0.69.

Management expect the trading environment to remain subdued however they are confident that the key near term initiatives across the Group (see page 2 of the Investor Presentation) - particularly in the areas of product ranging, supply chain improvements, Adairs NDC, CODB management and store rollout - provide levers for profitable growth.

***Interim Dividend and DRP***

The Board has declared an interim fully franked dividend of 5.0 cents per share (8.0 cents in 1H FY23). The Record Date for the dividend will be 12 March 2024 with payment on 8 April 2024.

The Board has determined that the Dividend Reinvestment Plan (DRP) will remain active for the FY24 interim dividend and that the key features will remain unchanged. DRP shares will be sourced from an issue of new shares at a 1.5% discount to the VWAP of Adairs ordinary shares over a five-day pricing period (14-20 March 2024, inclusive). DRP elections must be received by no later than 5pm (Melbourne time) on 13 March 2024 to be effective for the FY24 interim dividend.

***Conference Call***

As previously announced, 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 is 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)**

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, home furniture and home decoration products. We own and operate three vertically integrated brands in the Home category – Adairs, Mocka and Focus on Furniture. All brands 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***