Release to the Australian Securities Exchange

Adairs Limited
Results for the first half of FY25

24 February 2025

Adairs Limited (ASX: ADH) today released its results for the 26 weeks to 29 December 2024 (1H FY25), recording a strong first half with comparable sales[1] growth of +6.6%, underpinned by a record first-half sales result from Adairs (+9.3%) and another strong contribution from Mocka (+12.4%).

Operational and strategic highlights

Adairs

- Significant executive leadership team renewal, including Elle Roseby as Group CEO & MD (started Jan 2025); Head of Retail Operations (new, started Jan 2025); and Head of Product (experienced team member promoted in Jun 2024).
- Ranges in key categories (e.g. bed linen) and higher inventory availability in-store have resonated well with our customers, driving strong sales growth. This sales momentum has carried into the early stages of 2H FY25.
- Improvements in costs and operations at the NDC continue following 'step-in' by Adairs in September 2023. Costs have been reduced, online customer service levels have improved, and in-store product availability has been enhanced by a 20% increase in items delivered to stores.
- New warehouse management system was implemented in July 2024.
- Further improvements in service and cost efficiency will continue to be extracted from the warehouse operations over the medium term.

Focus on Furniture

- The performance of new and refurbished stores gives us confidence in the national rollout strategy. The pipeline for new stores has increased with further stores to open in New South Wales and operations to commence in Western Australia in 2025 and 2026
- The Queensland store expansion continued, with Robina opening in February 2025. Focus shares a warehouse with Mocka in Brisbane.

Mocka

- New leadership and skills added to the management team over the last 12 months. The team has settled in well, and their collective experience, confidence and capability is growing quickly.
- Australia and NZ websites were successfully re-platformed throughout 2024, providing a platform for the omni-channel strategy.
- Strong results being achieved from new product ranges, supporting improved margins

[1] 1H FY24 was a 27-week period for statutory purposes, while 1H FY25 comprised a 26-week period. Unless otherwise stated, all comparative commentary compares the same 26-weeks in both 1H FY25 and 1H FY24.

- The strategy to raise brand awareness and expand the availability (distribution) of Mocka products progressed. Mocka trialled wholesaling of its product to a major national retailer in Australia and New Zealand, and launched a selection of Mocka product at an Adairs store in New Zealand. These trials provided valuable operational and customer insights as Mocka moves toward opening its first standalone store in FY26

Commenting on the result and her early observations of the business five weeks after joining, Managing Director and Group CEO, Elle Roseby, said:

"The Group has delivered a strong financial performance in the first half of FY25, driven by robust sales growth from both Adairs and Mocka, and disciplined cost management across all three businesses. Whilst there has been little improvement in the overall retail trading environment, today's result clearly shows that when we deliver great products and value for money and support this with outstanding service, customers will reward us with their business and loyalty.

In my short time in the role, I have spent most of my time in the Adairs business and have been impressed by our team's positive culture, talent, and deep customer insight. At a Group level, our brands are distinct, well-established and supported by incredibly committed teams. We have solid foundations for each of our businesses that provide a platform to move from 'good to great'.

I am equally excited by the opportunities we see to improve operations and financial performance. Our momentum and the will of our teams and leaders to grow the businesses in our Group give us a running start. The feedback and insights we get from our team and customers, including through data and analytics, give us a rich source of information on how we can further improve. Looking ahead, I am openly ambitious for the Group and confident that we have the right foundations to achieve our goals.'

1H FY25 financial summary

	GROUP			
($ million, unaudited) Underlying[1]	1H FY25 26 weeks	1H FY24 27 weeks	Adjusted change[2]	Change
Total sales	310.5	302.4	+6.6%	+2.7%
Gross margin	186.0	182.3	+5.8%	+2.0%
Gross profit	148.7	143.6	+7.1%	+3.5%
Costs of doing business	109.5	107.4	+5.7%	+2.0%
Underlying EBITDA	39.1	36.2	+11.0%	+8.1%
Underlying EBIT	33.0	30.9	+10.0%	+6.7%
Statutory NPAT	19.4	17.7		+9.7%
Statutory Earnings per share (cents)	11.1	10.2		+8.5%
Dividend per share (cents)	6.5	5.0		+30.0%
Net debt	57.8	58.6		-(1.5%)

(1) Refer to Appendix 5 of the 1H FY25 Investor Presentation for a reconciliation of underlying and statutory results.

(2) 'Adjusted Change' refers to the change versus a comparable adjusted 26-week period for 1H FY24.

- Group sales of $310.5 million, up +6.6% on a comparable basis, driven by strong growth from Adairs (+9.3%) and Mocka (+12.4%), offsetting sales decline at Focus (-4.1%).
- Group gross margin up +5.8% to $186.0 million, with gross profit up +7.1% (gross profit margin % expanded +20bps) driven primarily by cost reductions from the Adairs warehouse operations (down 8.0%) reflecting continued process and productivity improvements at the Adairs NDC since 'step-in' in September 2023.
- CODB as a % of sales reduced 30 bps, reflecting the benefits of sales growth and effective cost management across the group despite inflationary pressures persisting.
- Underlying Group EBIT of $33.0 million, up +10.0% on a comparable 26-week basis.
- Underlying Group EBIT growth was driven by a significant improvement in the contribution of Adairs (+32.5%) and Mocka (+12.3%), partially offset by a decline in EBIT contribution from Focus on Furniture (-22.5%).
- Statutory NPAT of $19.4 million (+9.7%) and EPS of 11.1 cents.
- Interim dividend of 6.5 cents per share (FY24 interim: 5.0 cps), fully franked (+30%).
- Group net debt of $57.8 million, $6.3 million lower than June 2024 and $0.8m lower than December 2023.

Performance by Business

Adairs

The Adairs brand achieved record first-half sales of $220.5 million, up +9.3% on 1H FY24, driven by improved product ranges and better execution across the business. Store sales increased by +8.0%, which was underpinned by an improvement in sales conversion, despite minimal growth in traffic. Online sales increased by +12.8% to $58.5 million (26.5% of total sales), benefiting from the ongoing growth in Click & Collect.

The improved product offering, well-executed and measured promotional activities across the half, and higher stock availability drove an +80bps improvement in gross profit margin, offsetting the effects of a weaker Australian dollar.

Despite higher volumes and ongoing increases in store wages, rents, and utilities, Adairs' cost of doing business (CODB) as a percentage of sales decreased by -100 basis points due to a continued focus on cost management and the benefits of the 2H FY24 cost-out program.

Targeted NDC cost savings through continuous improvement remain on track, with total warehousing costs (including depreciation) down by approximately $5.0 million since Adairs took operational control of the NDC operations. The improvement in productivity at the NDC is encouraging, but we have significant scope for further improvement in efficiency and customer service, and this continues to be a high priority for Adairs management.

Adairs Underlying EBIT increased to $20.6 million, up +32.5%.

Management continues to focus on profitably growing the store portfolio. In 1H FY25, three new stores were opened, three stores were upsized/refurbished, and three smaller stores closed, collectively delivering a +2.5% increase in gross lettable area ('GLA'). Over time, the average size of Adairs stores will continue to increase as the business opens larger formats, selectively upsizes existing stores, and closes smaller stores when the store is no longer able to present a width of offer that delivers the Adairs customer experience.

Linen Lovers remains a key strategic asset for Adairs, with one million paying members enjoying member-exclusive benefits year-round. Members account for 85% of all Adairs sales, and work continues on ways to evolve the program to enhance customer value and grow the membership base, leveraging customer data and insights.

Adairs will relocate to a new, purpose-built customer support office at Chadstone in Q4 FY25. The new office has been designed to suit the business' needs, with an emphasis on collaboration and creativity. The net capital expenditure (after landlord fit-out contributions) is expected to be less than $1.0 million, while one-off relocation costs are expected to be less than $0.5 million.

Focus on Furniture

Focus on Furniture ('Focus') had a challenging half, with total delivered sales of $61.9 million, down -4.1%, and written orders down -9.4% on 1H FY24. Whilst we believe the Focus value proposition remains very strong, with quality furniture at great prices, the cost-of-living pressures facing households has required more promotional activity to drive sales conversion.

The store portfolio at Focus is also skewed to Victoria (14 of 25 stores), which are experiencing more difficult economic conditions. In expanding the business nationally, Focus expects to have a more geographically diversified business in the medium term.

The impact of a weaker Australian dollar, higher freight costs from suppliers, and increased promotional activity weighed on the gross margin rate, which fell by -330bps to 51.2%. While costs were actively managed (CODB down -2.3%) the weaker sales outcome led to a -22.5% decline in Underlying EBIT to $8.5 million.

The two newly opened stores in the last 18 months (Helensvale, Queensland and Prospect, NSW) have expanded the national store footprint and are contributing positively to EBIT, in line with expectations. New store openings remain a priority. A new store opened in Robina in February 2025, bringing the number of stores in Queensland to three.

Management expects 3-5 new stores to open over the next 2 years, targeting New South Wales and Queensland and a planned entry into Western Australia in 2026.

The program of refreshing existing stores delivers an enhanced customer experience, with those stores refreshed to date delivering improved trading relative to other stores. Focus expects to refurbish 3-5 more stores over the next 12 months. Whilst these store refurbishments require the stores to be closed for 6-8 weeks, the improved sales following the refurbishment will deliver strong medium and long-term returns on the investment.

Focus will relocate its customer support office and national distribution centre operations to new, purpose-built facilities in southeast Melbourne in Q4 FY25. No disruptions to operations are expected, and the net capital expenditure (after landlord fit-out contributions) will be less than $0.5 million.

Mocka

Mocka achieved 1H FY25 sales of $28.1 million, up +12.4% on 1H FY24. Australian sales finished the half up 27.5% and New Zealand sales down -3.5%, reflecting a combination of different macroeconomic factors and operational drivers in each market. However, following the completion of Mocka's re-platform project in New Zealand, the trend improved steadily through 1H FY25.

Mocka's gross margin continued to improve (+130bps), with new product ranges resonating well with customers and delivering strong sell-through performance, along with ongoing key lines continuing to achieve growth. These factors, combined with improvements in campaign execution and ongoing promotional discipline, are all contributing to the gain in gross profit margin.

The cost base at Mocka was well managed, with additional investment to support future growth through brand awareness driving larger audiences and sales growth in Australia.

Underlying EBIT was $3.8m, up +12.3%.

Amongst Mocka's strategic initiatives:

- The strategy to raise brand awareness and expand the availability (distribution) of Mocka products progressed. Mocka trialled wholesaling of its product to a major national retailer in Australia and New Zealand, and launched a selection of its product at an Adairs store in New Zealand. These trials provided valuable operational and customer insights as Mocka moves toward opening its first standalone store in FY26.

- The New Zealand website re-platform was completed in 1H FY25, after Australia went live in 2H FY24. This has improved the customer experience and will support the omni-channel strategy moving forward.

Balance sheet and cash flow

Group inventories increased by +$13.9 million over the half to $97.6 million. Greater stock availability contributed to the improved 1H FY25 sales results, with benefits expected to continue into 2H FY25.

Group capital expenditure of $8.2 million in 1H FY25 included new stores, upsized/refurbished stores, and continued investment in IT and digital initiatives.

The Group's net debt decreased by -$6.3 million over the half, ending at $57.8 million. This represents approximately 0.8x LTM Underlying EBITDA . The Group holds total finance facilities of $135 million, secured until January 2026 ($90 million) and January 2027 ($45 million), with a refinancing exercise having recently commenced.

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Interim Dividend and DRP

The Board has determined to pay an interim fully franked dividend of 6.5 cents per share (FY24 Interim: 5.0 cents per share). The Record Date for the dividend will be 11 March 2025, and payment will be made on 3 April 2025.

The Board has determined that the Dividend Reinvestment Plan (DRP) will remain active for the FY25 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 (13-19 March 2025, inclusive). DRP elections must be received by no later than 5pm (Melbourne time) on 12 March 2025 to be effective.

Trading update

Group total sales are up +9.2% for the first seven weeks of 2H FY25 (weeks 27-33) as follows:

REAL-TIME SALES (UNAUDITED) - FIRST SEVEN WEEKS OF 2H FY25

Business	v 2H FY24	Commentary
Group	**+9.2%**	• Macro-economic conditions materially unchanged from 1H FY25 (and the prior corresponding period), with sales improvements being driven mainly by 'controllables'.
Adairs	+15.2%	• Sales (both stores and online) are considerably higher than in the same period in 2H FY24. • Higher stock availability and improvements in range appeal are driving sales growth. • Gross margin trends are consistent with 1H FY25.
Focus on Furniture	-(5.4%)	• Written sales improved in early 2H compared to 1H FY25. However, sales conversion continues to be a challenge. • The opening order book for 2H FY25 is approximately $5 million lower than at the same time last year. • The performance of newly opened stores is pleasing, contributing to total sales growth.
Mocka	+2.1%	• Australian sales are up +14.3% • New Zealand sales are down -10.2%.

Outlook

Management remains focused on execution for the balance of FY25, and expects:

- Adairs sales to continue to maintain positive momentum, supported by improved inventory availability and attractive and differentiated product ranges. Further improvements in warehousing efficiency and service will also support sales and profitability.

- Focus on Furniture trading to remain challenging in 2H, given its Victorian store portfolio bias and lower opening order book at the end of December. Up to three stores will be temporarily closed for 6-8 weeks each in 2H FY25 for refurbishment.

- Mocka Australia to maintain momentum with an increasing audience, improved online customer experience and new product successes to support sales growth. New Zealand is expected to remain challenging.

The Group has hedged c.95% of USD purchases in 2H FY25 at US$0.67 (LY: $0.69).

Capital expenditure in FY25 is now expected to be in the range of $16m to $18m (previously $13m to $15m), driven by the timing of Group projects and confirmed relocation of the Adairs customer support office and Focus on Furniture customer support office and warehouse in 2H FY25.

Conference call

As previously announced, a conference call for investors and analysts to discuss this announcement, hosted by Elle Roseby (Managing Director and Group 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/).

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***