



Release to the Australian Securities Exchange

Adairs Limited

FY21 results

EBIT⁴ up 97.3% to \$109.1m driven by strong sales and margin growth

20 August 2021

Adairs Limited (ASX: ADH) today released its audited FY21 results and has reported another record year for both sales and profitability. While COVID-19 continues to bring focus to the Home category, our success in FY21 can be attributed to the strategic pillars the Board and management team set prior to the pandemic, underpinned by our vertically integrated omni-channel model, our unique product, our Linen Lover loyalty program and our amazing team who continue to delight and inspire our customers every day.

FY21 (vs FY20) highlights:

The FY21 results were achieved despite a third of all trading days in the year being impacted in some way by COVID-19 related store closures in various parts of the country. In particular our Greater Melbourne stores, representing 25% of our national network, were required to close for 99 days (c.27% of total FY21 trading days).

- Group Sales up 28.5% to \$499.8 million
 - Adairs sales up 22.1% (Online +33.2%, Stores +18.1%; Stores LFL +7.4%¹)
 - Mocka sales up 30.9%²
 - Group online sales now \$187.0 million representing 37.4% of group sales
 - Group sales across our digital platforms³ now represent 48% of total sales
- Underlying Adairs Gross Margin up 520 bps to 66.7%
- Underlying Group EBIT⁴ up 97.3% to \$109.1 million (FY20 \$55.3m⁵)
- Group statutory NPAT \$63.7m up 80.7% and EPS 37.7cps up 79%
- Year-end net cash position of \$26.0m with no bank debt (up \$27.0m from net debt of \$1.0m at Jun-20)
- Final dividend of 10.0 cents per share (fully franked) declared, taking the FY21 total dividend to 23.0 cents per share

¹ Like for like sales growth ("LFL") has been calculated on a store by store daily basis.

² Includes the period prior to December 2019 which was outside of Adairs ownership.

³ Comprises sales from the online stores 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.

⁴ References to "Underlying" results exclude the impact of (i) AASB 16 Leases, (ii) one-off costs associated with the transition to the new National Distribution Centre, (iii) Mocka related acquisition costs (including earn-out related adjustments), and (iv) the net JobKeeper wage subsidy benefit received in 1H FY21 and returned to the Government in 2H FY21.

⁵ Mocka's contribution in FY20 was 7 months.



Commenting on the FY21 results Managing Director and CEO, Mark Ronan, said:

“Our FY21 results confirm the strength of our brands and the competitive advantage our omni-channel model provides in this ever-changing environment. The continued growth in our online channel, has long term benefits for us as more of our customers shop across both channels. I am particularly proud of how our team has responded to the challenges caused by the pandemic which continues to have a significant impact on our business. They continue to successfully adapt to enable us to capitalise on the current retail trading environment.”

Adairs performance (excluding Mocka)

Adairs sales finished up 22.1% over the prior year and up 14.5% on a like-for-like basis.

In a year significantly disrupted by government mandated store closures Adairs omni channel strategy delivered strong total sales growth. Customers comfortably moved from one channel to the other and back again depending on the prevailing circumstances. Total store sales were up 18.1% for the year or 7.4% on a like-for-like basis after adjusting for the impact of the various store closures in 2H FY20 and FY21. Online sales grew by 33.2% to \$126.9 million and accounted for 28.9% of the Adairs business total sales (up from 26.5% in FY20 and 17.1% in FY19).

Linen Lovers members increased by 15% and now exceed 950,000. Given the ‘paid membership’ feature of Adairs loyalty program, and the fact that Linen Lover members now account for over 80% of sales, this is an excellent barometer of Adairs’ brand health and customer engagement and is a key enabler for future sales growth.

Adairs’ gross lettable area (store floor space) grew by 8.2% through a combination of new and upsized stores. Adairs opened four new Homemaker stores, upsized six stores (four Homemakers and two regular stores) and refurbished three stores. The store upsizing strategy continues to deliver a strong return on investment, with all stores increasing their sales and profitability following upsizing. Importantly, the FY22 pipeline for new and upsized stores is healthy with a net 2-4 new stores expected and plans to upsize a further 8-10 existing stores. This equates to an 8%+ increase in gross lettable area over the next 12 months.

Managing gross margin has continued to be a key focus, with Adairs gross margin rate increasing by 520bps to 66.7%. The FY21 retail environment, which saw generally lower stock levels across the industry, lower levels of promotional activity and strong customer demand, contributed to this result. Importantly, our ongoing focus on a program of sourcing and retail pricing initiatives combined with reducing the depth and length of promotional activity was also a strong driver of the margin improvement which will continue to be a focus in FY22.

Overall Adairs achieved significant operating leverage with CODB⁵ as a percentage of sales declining 350bps from 42.8% to 39.3%, despite continued investment in marketing and talent to support our future growth plans. Strong growth in sales across both channels, combined with this operating leverage delivered underlying EBIT growth of 98.2% to \$96.7 million representing an EBIT margin of 22.0% (up from 13.5% in FY20).



Mocka performance

Mocka achieved sales of \$60.2 million, 30.9% up on FY20 (noting that Adairs ownership was for 30 of the 52 weeks in FY20) and ahead of our original business case when the business was acquired in November 2019. Underlying gross margin rate declined by 60bps to 51.2% reflecting the impact of additional promotional activity in the second half as stock levels returned to more normal levels and the business cycled the national lockdown period in the prior year.

Mocka's CODB as a percentage of sales increased from 17.3% to 18.4% as we continued to invest in both marketing and talent. These initiatives are consistent with the intention to invest in the Mocka business to build management capabilities, raise brand awareness, particularly in Australia, and position the business for strong growth in coming years.

Mocka's underlying EBIT for FY21 was \$12.4 million with an underlying EBIT margin of 20.6%.

Throughout the year Mocka completed two significant projects to support the future growth:

- The New Zealand and Australian websites were re-platformed in September 2020, with the sites transitioning well with no disruption to customers or trading through this period; and
- The warehouse in Brisbane was doubled in size to build additional capacity to support the Australian growth.

To help support the growth of Mocka, Adairs announced in June the early settlement of the deferred consideration payable to the Mocka founders. This enables Mocka to continue to invest in the short-term to accelerate the realisation of the long-term potential, a period beyond the time horizon of the founders.

Appointment of Mocka CEO

Following the announcement in June that the Mocka founders will be leaving the business in September, Adairs is pleased to announce the appointment of Vanessa Brennan as Chief Executive Officer of Mocka. Vanessa is an experienced and innovative retail executive, having been Chief Brand and Strategy Officer at global jewellery retailer Michael Hill International. Vanessa has previously held positions at PwC (Partner, Customer & Digital Transformation), Clemenger BBDO (Managing Director) and Terry White Chemists (General Manager Marketing, eCommerce & Loyalty).

Commenting on Vanessa's appointment, Mark Ronan, Managing Director and Chief Executive Officer said, "Vanessa is well placed to lead the Mocka business as it continues to pursue its strategy of building market share by delivering differentiated stylish and functional product, convenience and value for money to customers. Vanessa is a timely addition to our team as we continue to scale the Mocka business and pursue its full potential".



Adairs National Distribution Centre

The new DHL-operated National Distribution Centre ('NDC') for Adairs will be fully operational by the end of September 2021. While this is approximately three months later than originally foreshadowed it remains an excellent outcome given the COVID-related delays in the delivery of building materials from offshore suppliers, and COVID-related restrictions throughout the building timeline.

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

Once transitioned annual savings of c.\$3.5m p.a. are anticipated (with pro-rata savings in FY22).

Strong cashflow and balance sheet

The Group successfully converted our outstanding profitability into strong operating cashflow which saw FY21 closing net cash of \$26.0 million and no bank debt, compared to a net debt position of \$1.0 million a year earlier. Both Adairs and Mocka finished the year with significantly higher levels of inventory than the prior year which were materially lower at the end of FY20 due to the actions taken to manage COVID-19 uncertainty as it emerged in the second half of FY20. The higher inventory holdings also allow for us to manage the shipping and production delays being experienced across the global supply chain which is expected to continue for some time.

The Group has considerable headroom with finance facilities of \$90m, which have been extended until July 2023 to better align with financial periods. We expect to pay both the FY21 final dividend (\$16.9m) and the deferred Mocka consideration (NZ\$48.0m/A\$44.7m) in September 2021. These will be funded by existing cash and term debt facilities.

With a strong balance sheet the company will continue to assess potential acquisition opportunities that are in line with its strategic objectives and satisfy strict return requirements.

Dividends

Given the underlying NPAT achieved in FY21 and our strong cash position, the Board has declared a final fully franked dividend of 10.0 cents per share. The Record Date for the dividend will be 9 September 2021 with payment on 23 September 2021. This takes the total dividend payout for the year to 23.0 cents per share.



Trading update

Group like for like sales for the first seven weeks of FY22 are up 5.2% on FY21 and up 50.5% on FY20⁶. Total group sales for the first 7 weeks are 11.7% lower than FY21 due to the COVID related store closures across Australia. In dollar terms, after 7 weeks our total group sales are approximately \$7 million behind the prior year, driven predominantly by the impact of mandated store closures.

Store sales have been resilient in the context of the temporary but significant impact of the lockdowns with total store sales down 27% on FY21 despite losing 40% of store trading days. All states and territories, except NSW, have experienced strong sales growth over FY20 (a pre-COVID period) with our customers response to our new ranges being very positive.

The Adairs online channel and the Mocka business, which together represented some 37% of total group sales in FY21, continue to perform strongly.

- Adairs online sales are up 12.9% for the first 7 weeks of FY22 versus prior period, and up 131% on FY20; and
- Mocka sales are up 16.1% on FY21 and up 73.9% on FY20 with the business benefiting from a stronger in-stock position and the COVID disruption to competitors retail stores in some markets.

Gross margins are moderating against FY21 however they remain well above FY20 levels.

FY22 first 7 weeks	v FY21	v FY20 ⁶
Total Group	-11.7%	+13.5%
Total Group (like-for-like)	+5.2%	+50.5%
Breakdown:		
Adairs Stores	-27.0%	-19.8%
Adairs Stores (like-for-like)	-3.0%	+17.0%
Adairs Online	+12.9%	+131.2%
Total Adairs	-16.1%	+5.5%
Total Adairs (like-for-like)	+2.9%	+45.9%
Mocka	+16.1%	+73.9%

Outlook

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. Whilst unfortunate, we expect mobility and both domestic and international travel restrictions to remain a feature of our market for the medium term which bodes well for a sustained period of elevated demand in the home category.

⁶ Includes Mocka sales for the period prior to December 2019 which was before Adairs ownership.



The home category represents a large addressable market and as an omni-channel retailer we have the ability to access all consumers regardless of which channel they choose to shop. Whilst the COVID-19 store closures are currently impacting our FY22 results, our performance online and in regions that have not been significantly impacted gives us confidence in the appeal of our product, the underlying health of consumer spending and their engagement with our brands. Further, we continue to see stores reopening from lockdown periods experience a strong recovery in sales which gives us confidence for when Victorian metro and NSW stores reopen.

Whilst gross margin is expected to moderate in FY22 from the record highs achieved in FY21, we continue to expect it to remain well above FY20 levels. The impact of broader industry issues such as supplier cost increases and increased cost of sea freight, will be reduced by the stronger AUD (75% of expected US\$ inventory purchases in FY22 hedged at A\$0.75 v FY21 A\$0.70) and our ongoing focus on managing price and depth of discount.

The supply chain environment remains challenging with production capacity and shipping availability both resulting in longer lead times. This will result in the group operating with higher inventory levels across the half to better manage the in-stock position and enable the brands to capitalise on the current trading environment.

Commenting on the FY22 outlook Managing Director and CEO, Mark Ronan, said:

“We continue to operate in a COVID impacted environment and need to remain prepared to act and adapt to significant business disruptions at short notice. The Adairs and Mocka teams are focussed on developing and delivering exclusive products through our vertical supply chains supported by a great customer experience via our integrated omni-channel model. This focus on customer and product, together with our loyal Linen Lovers and our amazing teams, provide strong mitigants in these conditions and put us in a position to be able to continue to take market share. We have a very large addressable market and being omni-channel means the entire market is open to us. That said, the frequency, duration and extent of Government imposed store closures due to COVID-19 will remain a significant factor in our financial performance throughout FY22”.

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. If not already done, you can pre-register 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: 10015003** to the operator.



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 vertically integrated 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. Adairs 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 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