



ASX / Media Release

Adairs Limited

FY23 results

Record sales in a challenging year

21 August 2023

Adairs Limited (ASX: ADH) today released its audited results for the 52 weeks ended 25 June 2023 ("FY23"). The Group has reported over 10 consecutive years of sales growth since it listed on ASX, however group profitability was adversely impacted in FY23 by lower margins and higher costs.

FY23 (vs FY22) highlights:

- Group sales of \$621.3m (+10.1%) as uninterrupted store trade saw customers return to stores and online sales normalised (16% of store trading days were lost in FY22 due to COVID related closures)
- Gross profit of \$285.5m (+5.8%) with margins adversely impacted by warehousing and supply chain costs, and with a 12-month contribution from Focus on Furniture which operates at a lower gross margin rate (7-month contribution in FY22)
- Underlying Group EBIT¹ of \$63.9m (-16.4%) impacted by lower margins and higher operating costs with a fully operating store network and reduction in rent rebates.
- Group statutory NPAT of \$37.8m and EPS 22.0cps
- Net debt of \$73.6m (a \$20m reduction from FY22)
- Agreement to take over the operations of the Adairs National Distribution Centre (NDC) from 6 September 2023 to improve customer experience and reduce costs
- Given the capital commitments required to take over the operations of the NDC and the importance of maintaining a strong balance sheet, the Board has taken the prudent decision to not pay a final dividend in FY23

Commenting on the FY23 results, Managing Director and CEO Mark Ronan said:

"Our FY23 sales performance reflected a strong product offering across all three brands, together with a full year's contribution from Focus on Furniture and a year free of COVID-related store closures. In a trend seen by virtually all retailers, sales slowed towards the end of the year as rising interest rates and broad cost of living pressures saw households tighten their budgets."

¹ Refer to Appendix 5 of the FY23 Results Presentation dated 21 August 2023 for a reconciliation of 'underlying' results to statutory results.



In a tougher trading environment, the combination of exclusive product, engaged customers, attractive price points and strong service culture sees us well placed to maximise sales in the coming year. This focus, combined with the operational improvements made in FY23, cost reductions across all brands and disciplined inventory management sees us well placed to maximise results in FY24."

Adairs brand

Total Adairs-brand sales rose 2.9% to \$430.8 million, driven by a 7.0% increase in store sales which benefitted from a year free of COVID-related store closures (16% of trading days were lost in FY22).

While the fully operating store network saw online sales fall 6% in FY23 online continues to represent an important channel for the brand, accounting for 27.1% of total sales. In the last four years online sales as a percentage of total sales have increased from 17.1% to 27.1% while the Adairs store footprint has grown by c.25% over the same period.

Gross margin softened 170 bps to 61.6% reflecting an increase in promotional activity in response to the more challenging retail environment. While container freight rates have returned to pre-COVID levels, the majority of this benefit will not flow until FY24 as inventory is sold.

Warehouse related costs increased by 16.2% as the National Distribution Centre (NDC) continued to operate at lower volumes and at a higher cost than expected.

Customer delivery costs rose sharply (+29.5%) reflecting industry-wide rate increases from delivery partners (including the impact of elevated fuel prices) and the growth of the furniture range within Adairs.

As felt across the industry, cost of doing business (CODB) was higher driven by increased store labour costs reflecting both a fully operating network and an increase in the minimum wage. Fixed rent increases (and removal of COVID-related rent rebates) together with higher utilities costs also added to the brand's CODB.

The softer gross margin combined with CODB increases meant that Adairs Underlying EBIT declined 37.1% to \$35.0 million.

Strategic outcomes for FY23:

- National Distribution Centre

On 1 August 2023 Adairs announced an agreement with DHL whereby Adairs will assume operational control of the NDC from 6 September 2023². This comes after a thorough review of the various options available and is supported by the continued employment of key Adairs team members involved in warehousing operations prior to the transition to the NDC. By returning to a self-operated model Adairs will leverage its product and supply chain expertise to deliver a significantly better experience for customers and stores at a materially lower cost than the 3PL arrangement.

² Refer to Appendix 3 of the FY23 Results Presentation dated 21 August 2023 for additional details.



- Digital strategy

A new Adairs-brand website was launched in November 2022. The new website provides an improved customer experience (simpler navigation, better product showcasing, faster page speeds) and importantly provides the foundations and capability for future online business initiatives, a number of which are in development and will start to roll out in FY24.

- Store strategy

Two new stores were opened, four stores upsized, two refurbished and three closed delivering a +2.2% increase in gross lettable area (GLA).

Focus on Furniture

Focus on Furniture had another excellent year, delivering a strong FY23 performance with sales up 5.3% to \$141.9 million.

High levels of product availability, short lead times, quality product ranges and a disciplined pricing strategy delivered gross margin gains in FY23 despite the industry-wide supply chain headwinds which prevailed for much of the year.

CODB increased by 13.2% in-line with continuous store trade and additional order volumes, as well as performance related incentives.

The sales and margin growth, combined with tight cost control, delivered Underlying EBIT of \$27.4 million, marginally up on the prior year and an EBIT margin of 19.3% (LY 20.3%).

Strategic outcomes for FY23:

- Redesigned store format at Hoppers Crossing (Vic) store, with another two stores scheduled for upgrade over the next 6 months.
- Clear growth opportunities through the roll-out of 30+ new stores nationally, with Queensland and New South Wales the growth markets. Expect to open 3-8 new stores across the next 18 months with three of these already confirmed (one of which will open in 1H FY24)

Mocka

Mocka sales declined 24.1% to \$48.6 million as customers returned to physical stores and as the brand moved on from its FY22 operational issues, with customer confidence returning as the year progressed.

In addition to restoring customer confidence through strong execution and enhancing product design and quality, management's focus in FY23 was on growing gross margin and streamlining the inventory range. Stock reduced by 38% and stockturns improved across FY23. Further work is progressing to right-size the width and depth of Mocka's product range.

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Gross profit in the first half of the year was impacted by extensive clearance activities of discontinued ranges, higher delivery costs following a change of the Australian delivery partner, and higher inbound shipping costs.

The second half of the year saw a significant improvement in gross margin with the full year improving +510bps to 50.5%. Less clearance activity, rationalised product ranges and a stabilised operating platform is rebuilding a profitable base for the brand. Gross margin lifted c.550bps in 2H on 1H FY23 and is up >1000bps on 2H FY22.

Profitability improved in the second half to finish FY23 with a full year EBIT of \$1.5 million (1H FY23 was \$0.3 million).

The Board and management continue to believe that given the strong product offering, the opportunity to profitably grow the business is substantial and will be exploring various distribution options over the coming year.

Cashflow and balance sheet

Cash generation from operations saw net debt finish at \$73.6 million, a reduction of \$20 million on FY22. The Group has finance facilities of \$135 million available until January 2025 (\$45 million) and January 2026 (\$90 million). Debt reduction remains a priority for the business and will be achieved through tight management of working capital and a disciplined approach to capital investment.

Inventory closed down 11% across the Group with Mocka reducing its previously elevated inventory holdings by c.38% over FY23 with excess and underperforming inventory cleared in 1H FY23. Supply chains have stabilised reducing the need to retain inventory buffers to manage the risk of unforeseen interruptions. The majority of inventory across all three brands is in core category lines with lower fashion/seasonal risk.

Dividends

Having considered the capital commitments required to take over the operations of the NDC and the importance of maintaining a strong balance sheet, the Board has taken the prudent decision to not pay a final dividend in FY23.

Outlook

The near-term outlook is likely to remain challenging given prevailing macro-economic headwinds.

Management have implemented material cost reduction initiatives that seek to manage the business appropriately for the prevailing and anticipated trading environment, while preserving a strong service culture and ensuring each brand continues to delight customers with new and unique product.



The Board remains confident that the Group is well placed to navigate these challenges given its resilient omni-channel business model, loyal customer base, large addressable market and proven management team.

Given the uncertainty in outlook the Board does not consider it appropriate to provide guidance for FY24 at this time.

Group trading update

Unaudited sales (first 7 weeks of FY24)	v FY23
Group	-(8.9%)
Adairs	-(8.5%)
Mocka	-(5.2%)
Focus	-(10.9%)

Based on real-time written sales

Margins have been carefully managed despite the weaker trading environment, with Group margins ahead of last year. The Group has hedged c.68% of its FY24 USD commitments at an average of \$0.70

Conference Call

A conference call covering the results for investors and analysts, hosted by Mark Ronan (Managing Director and Chief Executive Officer) and Ashley Gardner (Chief Financial Officer), will be held at 11:00AM (Melbourne time) on Monday, 21 August 2023.

Anyone wishing to listen to the call is required to register in advance by clicking on the link below. By registering you will be provided with the dial in number, the passcode for the call, and your unique access PIN. This information will also be emailed to you as a calendar invite.

[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/>).

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This announcement has been approved by the Board of Adairs Limited.

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About Adairs Limited

Adairs Limited is Australasia's largest omni channel specialty retailer of home furnishings, home furniture and home decoration products with three vertically integrated brands – Adairs, Focus on Furniture and Mocka. 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.

About Adairs

Adairs is a leading specialty omni-channel 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 Focus on Furniture

Focus on Furniture ('Focus') is a vertically integrated omni-channel furniture and bedding retailer offering well designed, functional and on-trend products at great value for money through its network of stores in Australia and its online channel. Focus is characterised by its attention to customer service, support, product quality and range. For further information visit www.focusonfurniture.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, Kids and Nursery 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

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