Adore Beauty Group Limited
ABN 78 636 138 988

**ASX ANNOUNCEMENT**

19 October 2023

**2023 Annual Report**

Adore Beauty Group Limited (ASX: ABY) (**Adore Beauty**) attaches its 2023 Annual Report.

This announcement was authorised for release to the ASX by the Chair of the Board.

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**About Adore Beauty**

Launched in 2000 as Australia's first beauty focused e-commerce website with a vision to help customers feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience personalised to their needs. Adore Beauty has evolved to an integrated content, marketing and e-commerce retail platform that partners with a broad and diverse portfolio of more than 270 brands and 12,000 products. Adore Beauty operates in Australia and New Zealand. For further information please visit www.adorebeautygroup.com.au.

# Annual Report 2023

ADOREBEAUTY

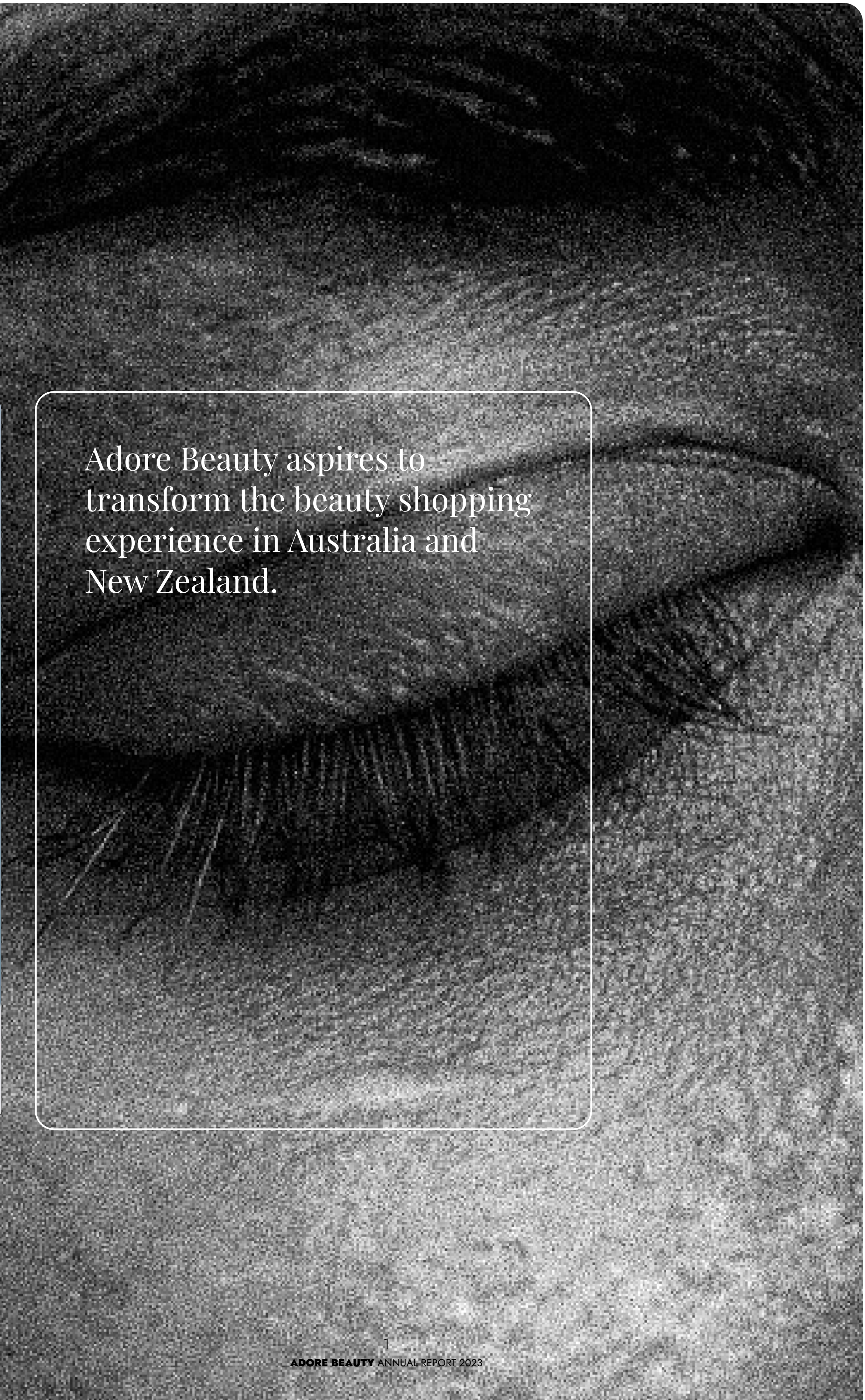
BEAUTY DONE BETTER

Adore Beauty is Australia's number one pureplay online beauty retailer[1]. Adore Beauty's vision is to help women feel more confident and fabulous every day, by delivering an empowering and engaging beauty shopping experience personalised to their needs. Education and entertainment are core elements of Adore Beauty's offering – and its platform is a destination for beauty consumers, even when they are not seeking to purchase items. The Company aims to be known as a trusted, authentic and credible voice in the beauty and personal care space.

1. Based on management estimates.



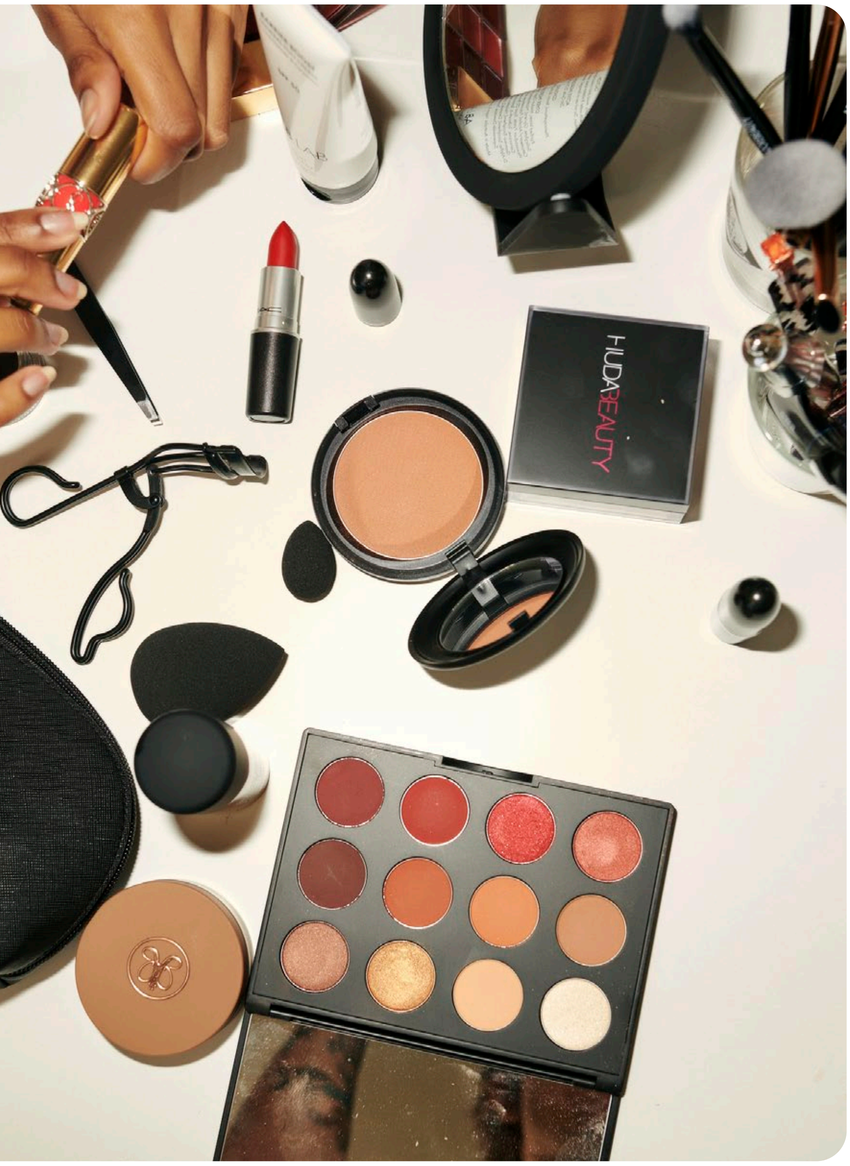
CONTENTS



Adore Beauty aspires to transform the beauty shopping experience in Australia and New Zealand.

# FY23 Highlights

## Australia's leading pureplay online beauty retailer[1]




**$180.6M**

**Revenue**

-9.6% on PCP
+14% 3-year CAGR

**32.8%**

**Gross profit margin**

-0.5 ppts on PCP

**$0.6M**

**Reported EBITDA[2]**

1. Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates.
2. Reported EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation.
3. Active customers refer to customers who have ordered in the last 12 months; PCP is the 12-month period to 30 Jun 2022.
4. Returning customers are customers who have placed an order in any period prior to FY23 and re-purchased in the period; +4% refers to growth on 12-month period to 30 Jun 2022.
5. Balance as 30 Jun 2023 compared to 30 Jun 2022.


801K

**Active customers[3]**

-8% on PCP
+11% 3-year CAGR

490k

**Returning customers[4]**

+4% on PCP
+31% 3-year CAGR

$27.8M

**Cash[5]**

-7.7% on PCP

# Customer loyalty proving resilient

# Chair's Letter

ON BEHALF OF THE BOARD OF ADORE BEAUTY LIMITED, IT IS A PRIVILEGE TO PRESENT THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDING 30 JUNE 2023 (FY23).

As expected, FY23 was a challenging year for Adore Beauty as we cycled two consecutive years of lockdown-impacted growth and navigated volatile trading conditions, with high inflation and subdued consumer sentiment. In this challenging retail environment, it was positive to see Adore Beauty return to growth year on year in the second half, with improved profitability.

For the full financial year, revenue of $180.6 million was supported by multiple record trading days, a record number of returning customers, and record average order values. Our 801,000 active customers include almost 500,000 repeat customers, who contributed 76% of total revenues for the year. Our strong returning customer base highlights the loyalty and trust in our brand, and the broader resilience of the beauty category.

Beauty products, particularly skin and hair care, are a key part of our customers' daily routines. Consumers are facing higher cost of living pressures and are increasingly looking for value, and we continue to offer a wide range of brands, combined with convenience and great value. With more than 270 brands spanning masstige through to luxury, we are well positioned to meet evolving customer needs and budgets.

In FY23, Adore Beauty continued its disciplined re-investment in key growth initiatives, to retain its market leadership position and set the business up for future success.

In FY23, Adore Beauty continued its disciplined re-investment in key growth initiatives to retain its market leadership position and set the business up for future success. These include the mobile app and loyalty program, broad product offering, private label, and growing owned content and marketing channels.

Adore Beauty has a long growth runway, operating within Australia's $12.8 billion beauty and personal care market. Online beauty and personal care is forecast to be a $2.9 billion market by calendar year 2027, accounting for 18.4% of all category sales. It's important to note that this growth is not expected to be linear, with moderate growth forecast this calendar year before ramping up in 2024.

Adore Beauty remains well funded to capitalise on this large market opportunity with a healthy balance sheet of $27.8 million cash, and no debt. In addition to phased re-investment in key strategic initiatives, we continue to evaluate M&A and capital management strategies.

In FY23, Adore Beauty appointed highly experienced retail executive Tamalin Morton to lead the business as CEO. Tamalin brings more than two decades' retail expertise to the Company including CEO, General Manager and Chief Operating Officer roles at Best Friends Pets, Australian Pharmaceutical Industries' Priceline (API), Kathmandu (ASX: KMD) and Spotlight Retail Group. Under Tamalin's leadership, we have already seen improvements in key operational metrics and have a refined strategy focused on customer centricity, further building the brand, and operational optimisation.

## Adore Beauty enters FY24 with new leadership and a refined growth strategy to increase customers, revenue, and margins.

In line with long-term succession plans, co-founders Kate Morris and James Height decided it was the right time to step down from their part-time executive roles at the end of the 2023 financial year. Importantly, we continue to retain Kate and James' knowledge and expertise as Non-Executive Directors.

I would also like to thank my fellow Directors, management, and the entire Adore Beauty team for their hard work and commitment in volatile operating conditions.

And finally, thank you to our shareholders for your continued support.

Adore Beauty enters FY24 with new leadership and a refined growth strategy to increase customers, revenue, and margins. We remain focused on delivering value for our customers, brand partners and shareholders.

**Marina Go**
**Chair**

# CEO's Letter

Dear shareholders,

It's a privilege to write to you as the CEO of your Company, Adore Beauty.

Joining Adore Beauty in January 2023, my focus has been on returning the business to growth and improving the bottom line amid a backdrop of significant interest rate increases, high levels of inflation, and subdued consumer sentiment.

Despite challenging trading conditions, Adore Beauty achieved both revenue growth and improved profitability in the second half of FY23, driven by our compelling customer value proposition, multiple record promotional events, and the early impacts of newly implemented margin and cost optimisation programs.

On a full-year basis, revenue of $180.6 million was down 9.6% on the lockdown-impacted prior corresponding period, however, revenue has grown at an annual rate of 14% over the past three years.

Active customers of 801,000 declined over the prior year, following a period of significant new customer growth during COVID lockdowns. Importantly, our customer base increased 11% on a three-year Compound Annual Growth Rate (CAGR), and we continue to retain more of these customers.

Returning customers grew 4% over the prior period to a record 490,000, and this has more than doubled since FY20. These customers contributed 76% of all revenue for the year and typically spend more, and shop more often than first-time customers. Our higher proportion of returning customers underpinned a 3% annual increase in average order values to a record $111.60.

Higher levels of promotional discounting and inflation in key input lines saw gross profit margin decline to 32.8%, from 33.3%. Pleasingly, gross profit margin improved in the second half of FY23.

Subdued revenue and re-investment in the business impacted profitability in FY23 with reported Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of $0.6 million and an EBITDA margin of 0.4%. Adore Beauty enters FY24 with a strong balance sheet of $27.8 million in cash, and no debt.

## Refined strategy

Adore Beauty's refined strategy is focused on three key pillars – customer centricity, further building the brand, and operational optimisation. This approach leverages several existing strategic initiatives, such as the mobile app, private label, and loyalty program.

Customers are at the forefront of this strategy. We recognise customers' needs continue to evolve, and to stay ahead of the curve, we need to not only know the customer better but also to provide a differentiated and valued offering.

In FY23, we collaborated with SOON Future Studies to develop a State of Beauty 2023 report, outlining the themes and trends shaping the Australian beauty category. Data insights from more than 2,000 of our community members, as well as industry leaders, have re-affirmed our approach and the opportunity.

Our focus on customer centricity includes enhancing our loyalty program and user experience, investment in beauty technology, and accelerating our mobile app.

Adore Beauty's mobile app is nearing our initial 30% revenue target, accounting for 25% of all sales in the fourth quarter, up from 15% for the same period last year. In FY23, mobile app continued to offer significantly better unit economics than web even as it scaled, with average order values and frequency metrics performing 14% and 34% better respectively. We see more opportunity to increase adoption of this low-cost channel.

Further building the Adore Beauty brand also represents an important opportunity. Initiatives under this pillar include physical brand activations, private label expansion, range and adjacency offering, and broadening our target audience – all support brand awareness, new customer acquisition, and revenue growth.

In FY23, we achieved significant progress in many of these areas. We more than tripled the number of private label SKUs to 38 across three brands (Adore Beauty, AB LAB and Viviology), onboarded 20 new partner brands, added complementary wellness and fertility categories, ran several successful in-person activations, and improved awareness in the 25-45 year-old female demographic to 62%, from 59%.

Over the year ahead, we'll be further expanding our private label offering, increasing our focus on the valuable 41-50 year-old female demographic, and growing our cosmetics and wellness ranges to address target customer concerns. We're also continuing to evaluate opportunities to drive further revenue growth through M&A.

In FY24, we will continue to optimise our operations – with improved marketing effectiveness, scaling owned channels, supplier terms, AI, and commercialisation of our marketing assets and opportunities. Many of these initiatives are already underway, delivering improvements to both marketing as a percentage of sales and gross profit margin in the second half of FY23.

## Looking ahead

In FY24, our customer value proposition will continue to be a growth driver as the retail environment remains challenging, given higher cost of living pressures and subdued consumer sentiment. We will continue to leverage our healthy balance sheet to phase investment in key strategic initiatives to grow our customer numbers, brand awareness and revenue, supported by broader market growth as online sales gain pace in calendar year 2024. At the same time, our continued focus on margin and cost improvement will support profitability, and we are targeting an EBITDA margin of 2-4% in FY24 on a full-year basis.

Our performance over the past year would not have been possible without the ongoing support of our brand partners. We look forward to our continued collaboration over the coming year.

I'd also like to extend my thanks to our loyal shareholders and the Board for the opportunity to lead Adore Beauty. I am optimistic about the Company's growth opportunities and outlook.

Lastly, I'd like to acknowledge the very talented Adore Beauty team for their hard work, passion, and drive over the past year. A key attraction in joining Adore Beauty was the Company's values-led culture of inclusivity, authenticity, innovation, and empowerment. The team embodies our ethos of 'beauty done better' and we remain focused on increasing accessibility to beauty and wellness with our customer-centric approach.

**Tamalin Morton**
**CEO**

In FY24, we will continue to optimise our operations – with improved marketing effectiveness, scaling owned channels, supplier terms, AI, and commercialisation of our marketing assets and opportunities.

# Review of Operations

## Financial performance

Annual revenue of $180.6 million declined 9.6% compared to the prior period. Over the past three years, Adore Beauty has grown revenue at a CAGR of 14%. Importantly, revenue returned to growth in H2 FY23, up 0.5% on H2 FY22, supported by multiple record promotional events and a higher proportion of returning customers.

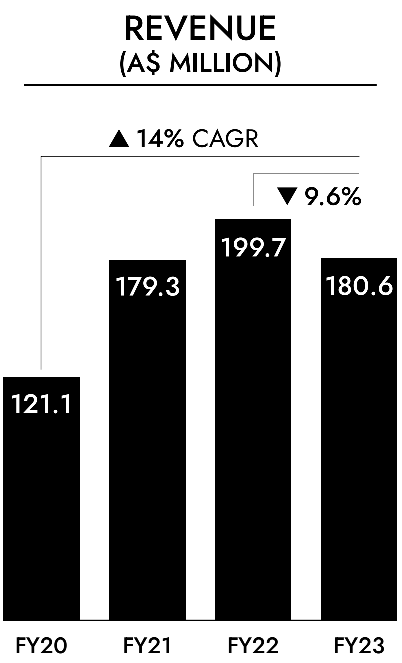
Gross profit margin of 32.8% was down 0.5 percentage points on the prior year due to higher freight costs and more frequent promotional discounting. Reported EBITDA of $0.6 million reflects re-investment in the business and the impact of subdued revenue and higher costs of sales. Margin and cost management initiatives delivered improvements to both gross profit margin and profitability in H2 FY23.

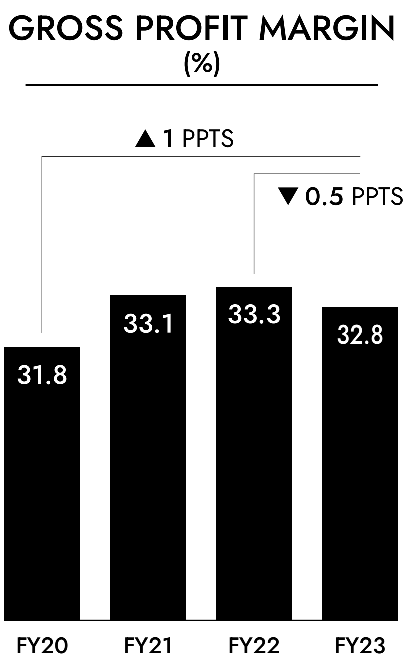
The Company's balance sheet remains strong with $27.8 million cash as of 30 June 2023, and no debt.

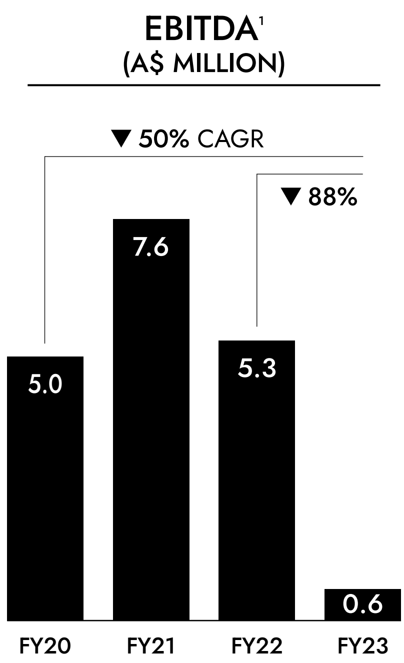
Adore Beauty had 801,000 active customers at the end of FY23, down 8% on the PCP as the Company cycled lockdown-acquired new customers. Active customers have grown at an annual growth rate of 11% since FY20, and now include almost 500,000 returning customers. These returning customers were the primary revenue driver in FY23, contributing 76% of total sales, up from 70% in FY22 and 62% in FY21.

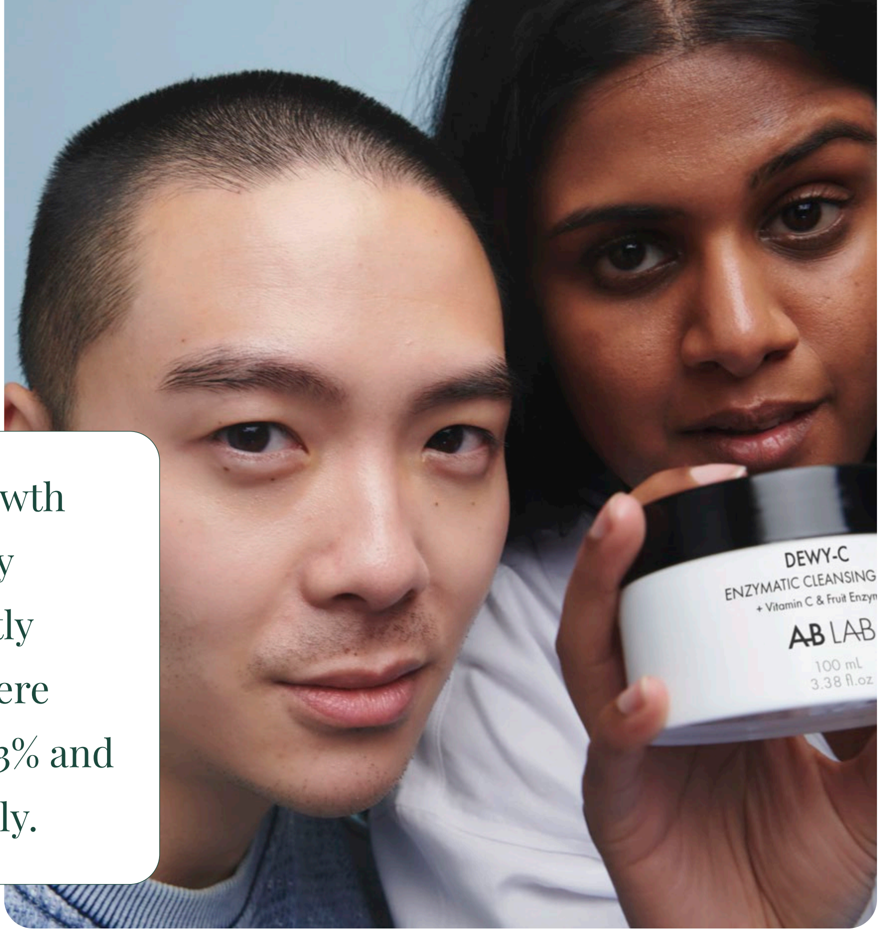
New customer growth in FY23 was impacted by higher customer acquisition costs resulting from increased competition and cost per click inflation.

A record number of returning customers delivered improvements in average order values, up 3% on the prior year to a record $111.60. Annual revenue per active customer declined 2% as average order frequency dropped to two orders per active customer annually, from 2.1.






Adore Beauty has a long growth runway with online category sales in Australia significantly behind the UK and USA, where e-commerce accounts for 43% and 36% of total sales respectively.

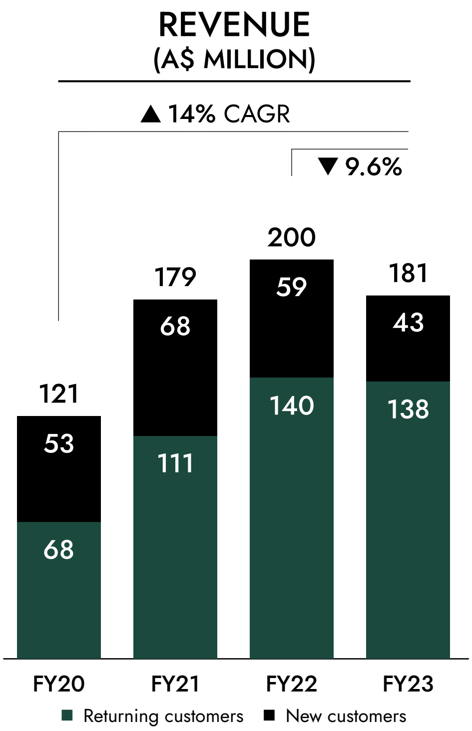
## Strategic initiatives

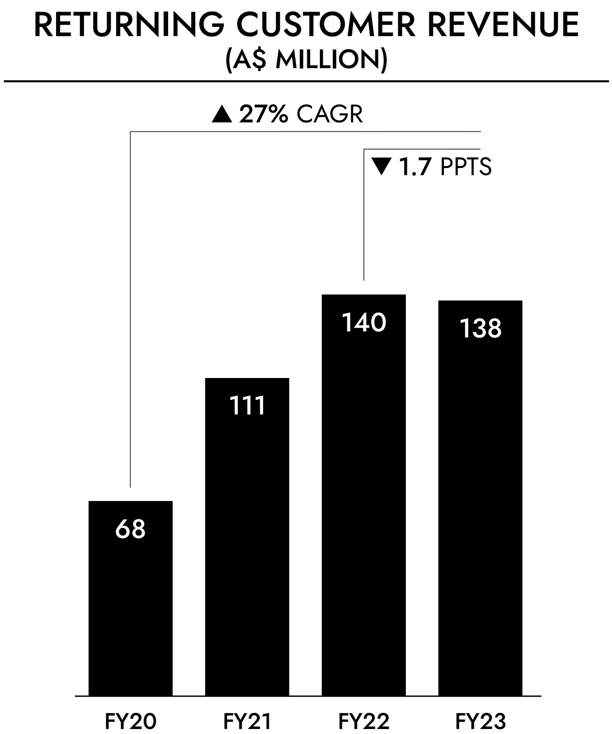
Over the year, Adore Beauty progressed its key strategic initiatives, which are designed to grow topline revenue, active customers, lifetime value and profitability.

The Company enters the year ahead with a refined strategy focused on customer centricity, further building the brand, and operational optimisation. Many of the below initiatives sit within these pillars.

## Loyalty and brand awareness

High levels of engagement and sales from Adore Society loyalty members reflect the underlying consumer trust in the Adore Beauty brand. Over the year, the Company continued to enhance its loyalty program with additional initiatives now underway to further improve user experience, personalisation, targeting, and order frequency.



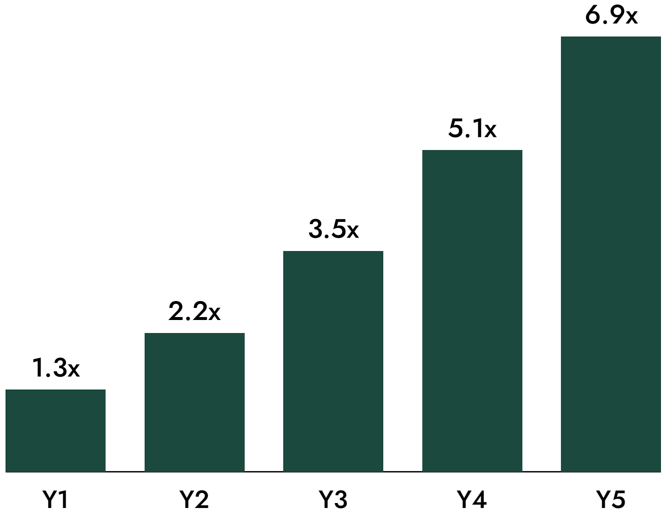
# Review of Operations cont.

In FY23, Adore Beauty was awarded Top User Experience by industry publication Power Retail, Best-rated Makeup Retailer by Finder, and was a finalist in Inside Retail's Loyalty Program of the Year.

Throughout the year, Adore Beauty hosted several physical brand activations, including a successful Adore Beauty bus which toured NSW beaches and in-person brand masterclasses. These events, combined with more effective marketing, saw brand awareness in the Company's core 25-45 year-old female demographic increase from 59% in June 2022 to 62% in August 2023. Over the same period, brand awareness increased 7% in the 45-65 year-old female segment.

On average, Adore Beauty continues to recover customer acquisition costs in just over a year while customer lifetime value grows to almost seven times the acquisition cost by year-five. The Company is increasingly focused on growing strong lifetime value demographics, such as the 41-50 year-old female demographic.

**Average LTV/CAC[1] by financial year[2]**



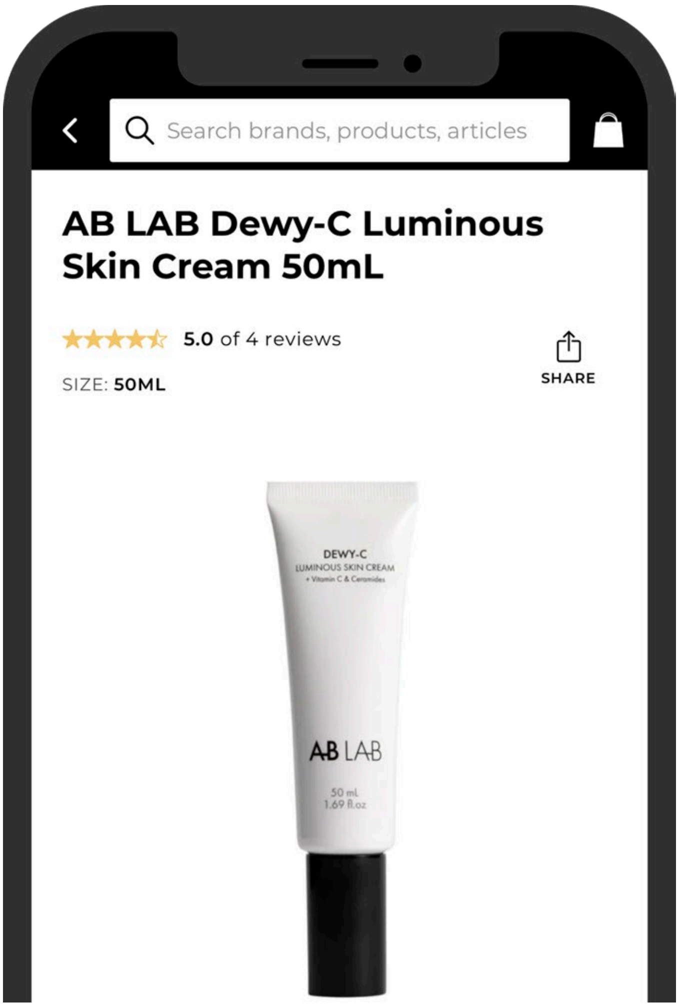

1. LTV (Lifetime Value) is calculated as the cumulative contribution margin (where contribution margin is gross profit margin less bank and merchant fees) generated from the relevant customer cohort, net of customer churn for that cohort. CAC (Customer Acquisition Cost) represents the total advertising expense (this is a fully loaded advertising cost, including cost related to acquiring new and retargeting returning customers, and also includes brand awareness above the line (ATL) spend) over a period of time per new customer acquired during that period.
2. LTV/CAC calculated over FY18 – FY23 period.

## Mobile App

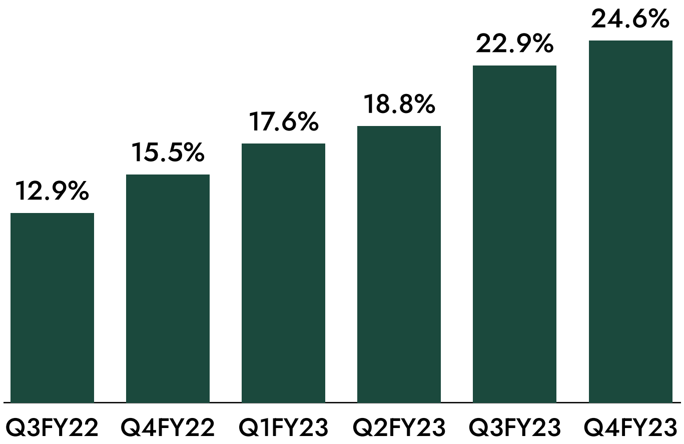
In FY23, Adore Beauty significantly increased adoption and revenue contribution from its mobile app, accounting for a quarter of all sales in Q4. Share of revenue was up from 15% for the same period last year. Importantly, the app continues to outperform web on key customer metrics with average order values and frequency 14% and 34% higher respectively.

Adore Beauty's app is resonating with customers, retaining its 4.8/5 rating from more than 12,500 reviews.

The lower-cost, content-first channel enables Adore Beauty to cost-effectively engage, retain, and grow customer lifetime value. Initiatives are underway to encourage returning customers to download and shop through the app.

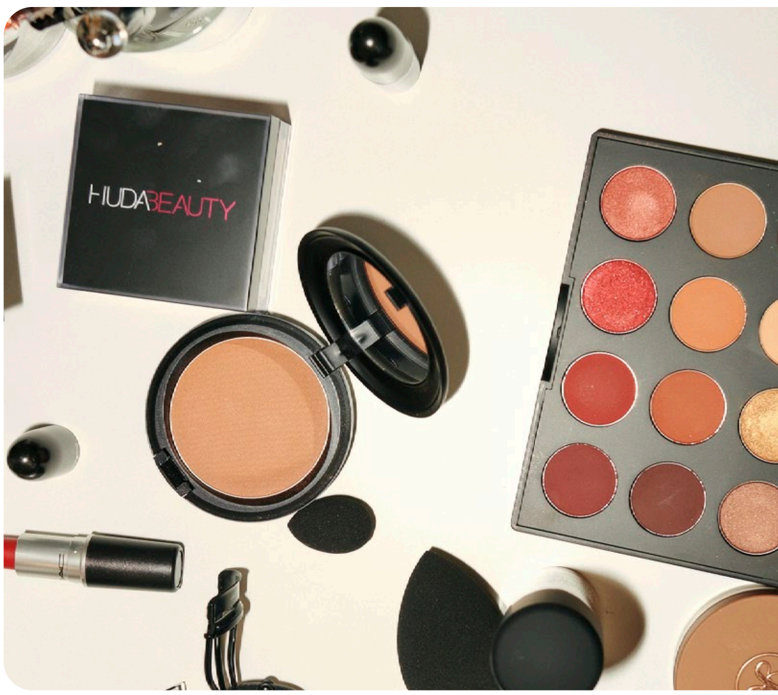



Mobile app sales share of revenue




## Product range and adjacencies

Adore Beauty continues to expand its brand and adjacency offering to support sales, customer retention and acquisition. In FY23, the Company onboarded 20 new brands, including Dior and Huda Beauty, and broadened its offering to include complementary wellness and fertility categories. Fragrance continued to experience strong annual growth; however, skin and haircare remain the Company's largest categories.



# Review of Operations cont.


## Private label

Over the past year, Adore Beauty launched its AB LAB brand and more than tripled its private label portfolio to encompass 38 SKUs across its three brands – Adore Beauty, AB LAB and Viviology. AB LAB leverages the master Adore Beauty brand and includes skincare-led SPFs, cleansers, and moisturisers for different skin types.

The Adore Beauty brand covers make-up and skincare accessories as well as branded merchandise.

Viviology is a standalone cosmeceutical skincare brand developed in collaboration with dermal therapist James Vivian.

New product launches are planned across the year, as the Company continues to expand its range.

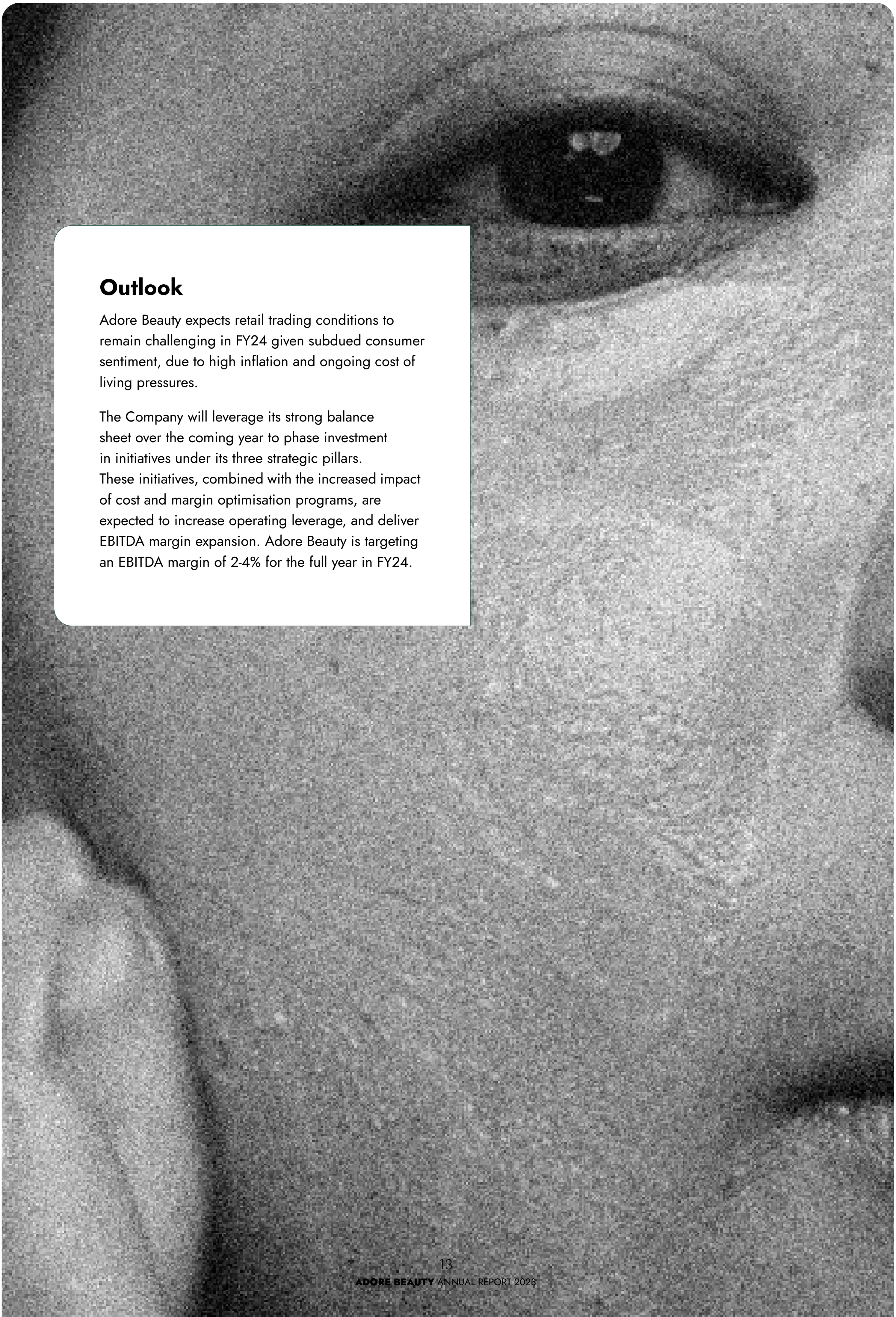
Private label diversifies Adore Beauty's margin profile, and while the three brands are in their infancy, these products are already delivering a gross margin substantially higher than third-party brands.

## Content and organic marketing channels

Adore Beauty's content is an authoritative and authentic voice on beauty, wellness, and personal care. In FY23, the Company continued to invest in content to cost-effectively support organic traffic to its owned marketing channels. These channels include Adore Beauty's nine podcasts, which were downloaded a combined 6.2 million times, as well as blogs and follower communities across Instagram, YouTube, TikTok and Facebook.

Content-driven impressions increased 23% on the prior year, with high engagement levels representing an opportunity for the business to commercialise its marketing assets, including retail media.

Investment in owned content channels reduces marketing expenses over the long term, offsetting higher customer acquisition costs and reliance on competitive paid channels.



## Outlook

Adore Beauty expects retail trading conditions to remain challenging in FY24 given subdued consumer sentiment, due to high inflation and ongoing cost of living pressures.

The Company will leverage its strong balance sheet over the coming year to phase investment in initiatives under its three strategic pillars. These initiatives, combined with the increased impact of cost and margin optimisation programs, are expected to increase operating leverage, and deliver EBITDA margin expansion. Adore Beauty is targeting an EBITDA margin of 2-4% for the full year in FY24.

# ESG Report

ADORE BEAUTY RECOGNISES ITS ONGOING RESPONSIBILITY IN CREATING POSITIVE INDUSTRY CHANGE. THE COMPANY EMBODIES ITS 'BEAUTY DONE BETTER' ETHOS, CHAMPIONING NEW BEAUTY NARRATIVES, COMMUNITY CONNECTION, AND ADVOCATING FOR DIVERSITY AND INCLUSION.

## Sustainability

Adore Beauty remains focused on reducing its environmental footprint and continues to assess, and develop new environmental, social and governance (ESG) measures.

### Packaging

- The majority of the boxes used for customer orders are made from recycled matter
- All outer boxes are recyclable
- Package void fill is recycled and recyclable
- Refined smallest outer boxes to further reduce cardboard usage
- Recycled almost 83 tonnes of cardboard from suppliers
- Recycled almost 3 tonnes of plastic from suppliers

As an e-commerce retailer, packaging accounts for a significant proportion of Adore Beauty's environmental footprint. The Company is committed to reducing packaging wastage by using recycled and recyclable materials, and reducing plastic in its supply chain. Adore Beauty sources all packaging and void fill from Australian suppliers. Volumetric technology is used to minimise packaging wastage, enabling the team to select the smallest possible box for each individual order.

In FY23, Adore Beauty re-designed its smallest boxes to use less cardboard per box, reducing wastage. These boxes are used for the majority of customer orders.

### Recycling

In FY23, the Company's onsite recycling compactor recycled more than 83 tonnes of cardboard and almost three tonnes of plastic waste.

Adore Beauty is also working with brand and supplier partners to implement change through the manufacturing process, reducing the usage of non-recyclable plastic wrapping and packaging.

### Energy

The Customer Fulfillment Centre features several energy-saving measures, including a reflective roof which reduces internal temperatures by up to six degrees in summer, and large ceiling fans.

### Modern Slavery

Adore Beauty continues to improve its ethical sourcing strategy to further minimise modern slavery risks. Over the year, Adore Beauty worked closely with external consultants to review and expand this work, encompassing a risk assessment of its supply chains and operations, a review of current modern slavery related policies, and the development of a tailored online modern slavery training module for team members. This work will continue into FY24 with the development of a supplier code of conduct and responsible sourcing guidelines for Adore Beauty's sourcing teams.

## Community, Diversity and Equal Opportunity

Adore Beauty continues to embody its Beauty Done Better ethos. The Company leads the way for women in leadership, with a female co-founder, majority women on the Board and leadership team, including CEO.

Over the past financial year, Adore Beauty increased workplace flexibility and wellbeing options for all employees, trialling a compressed work week that enabled employees to work a nine-day fortnight with every second Friday off. As a result, Adore Beauty was recognised in the 2023 AFR BOSS Best Places to Work Awards, awarded runner-up in the retail, hospitality, tourism and entertainment category. This initiative has now been extended beyond Adore Beauty's office-based employees to include team members in its Customer Fulfillment Centre.

The Company also enhanced its Diversity and Inclusion efforts in several key areas, including early work on its first Reconciliation Action Plan (RAP) and incorporating an Acknowledgement of Country on its website. Adore Beauty has an inclusive work environment where diversity is celebrated. The Company seeks to provide an environment where the team can feel safe and respected at work, free from harassment and bullying. In FY23, Adore Beauty implemented initiatives that strengthen its commitment to greater allyship with the LGBTQIA+ community. Through policies and practices, the Company also supports its caregivers through paid parental leave for both parents, flexible work arrangements, and assistance for those in family violence situations.

Adore Beauty is community-led. In the past financial year, a conscious decision has been made to include more people from the Adore Beauty community in campaigns and content. This assists with true representation and ensures marketing materials foster inclusivity and diversity.

As part of the Company's community focused approach, Adore Beauty partnered with Skin Smart during FY23 to highlight the importance of prevention and early detection of skin cancer, providing free skin checks at a number of beaches in NSW.

Adore Beauty is proudly a values-led Company and is committed to continuous improvement of policies and practices that support its team, customers, and community.

# Board of Directors


## MARINA GO
**NON-EXECUTIVE CHAIR**

Marina is an experienced independent non-executive director. She serves on the boards of a diverse range of listed and private entities across retail, convenience, energy and infrastructure. Marina has more than 25 years of leadership experience in the media industry, including CEO, GM and Publishing Director roles. She is a member of O'Connell Street Associates, the Australian Institute of Company Directors and Chief Executive Women.

## KATE MORRIS
**NON-EXECUTIVE DIRECTOR**

Kate Morris is a co-founder of Adore Beauty and was Director and joint CEO with James Height from the Company's inception in 2000, until 2018 when she became an Executive Director. Kate is also a co-founder of successful SaaS startup Findation, and growth equity firm Glow Capital Partners, as well as an angel investor and mentor at Startmate. Kate is a two-time winner at the Telstra Business Women's Awards, and in 2021 was awarded the Alumni Excellence Award as well as a Fellowship at Monash University. She stepped down from her role as the Company's Chief Innovation Officer at 30 June 2023, when she became a Non-Executive Director.

## JAMES HEIGHT

**NON-EXECUTIVE DIRECTOR**

James is a co-founder of Adore Beauty, and was Director and joint CEO since the Company's formation in 2000 until 2018 and then sole CEO between 2018 and August 2020. James was most recently the Chief Data Officer at Adore Beauty before resigning on 30 June 2023.

## SANDRA BIRKENSLEIGH

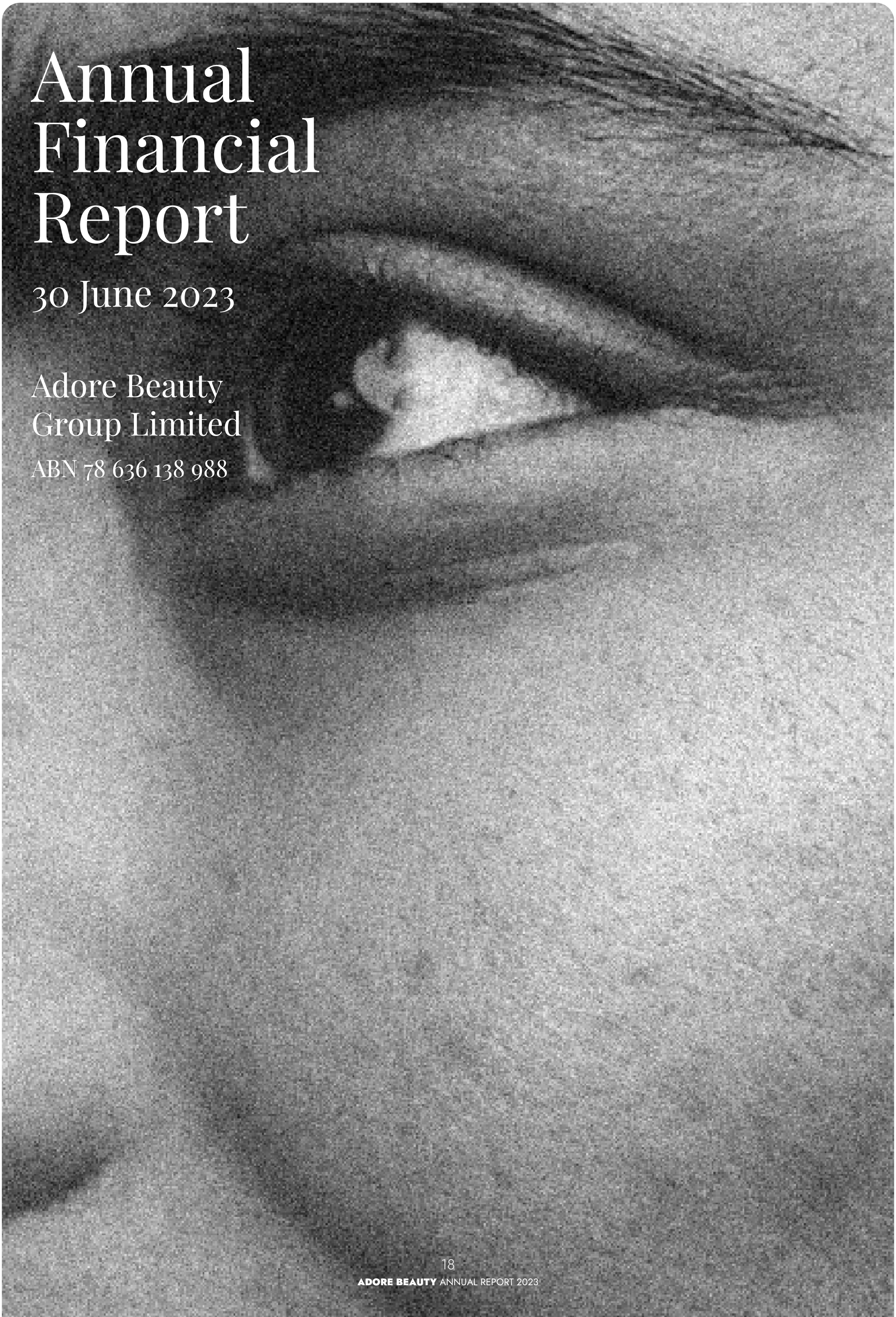
**NON-EXECUTIVE DIRECTOR**

Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience, retail and resource companies. Sandra was formerly a partner of PwC for 16 years. Sandra is a member of the Institute of Chartered Accountants in Australia and New Zealand, a member of the Australia Institute of Company Directors and a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).

## LISA HENNESSY

**NON-EXECUTIVE DIRECTOR**

Lisa has extensive non-executive director experience across listed, private and not-for-profit organisations. Lisa is currently a Non-Executive Director of ASX listed Cleanspace Holdings Limited and served as Lead Independent and Non-Executive Director of Nitro Software Limited. Previously, Ms Hennessy has held executive roles within global organisations and enterprise software businesses, including Bain, General Electric and Del Monte Foods working across the USA, Australia and EMEA. Lisa is a graduate of Australian Institute of Company Directors.



# Annual Financial Report

30 June 2023

Adore Beauty Group Limited

ABN 78 636 138 988

# Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'Adore Beauty') consisting of Adore Beauty Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2023.

## Directors

The following persons were directors of Adore Beauty Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

- Marina Go
- Kate Morris
- James Height
- Sandra Birkensleigh
- Lisa Hennessy

## Principal activities

Adore Beauty is Australia's largest pure play online retailer for beauty and personal care products.[1]

Adore Beauty generates its revenue through online sales of beauty and personal care products to Australian and New Zealand consumers. Adore Beauty has a compelling range with over 12,000 products and more than 270 brands on offer. Adore Beauty fulfils orders from its customer fulfilment centre in Victoria.

There have been no changes in Adore Beauty's principal activities during the financial year.

Adore Beauty's registered office is Level 1, 421 High Street, Northcote, Victoria, Australia and it is listed on the Australian Securities Exchange under the code ABY.

## Dividends

No dividends have been paid during the financial year or since the end of the financial year. No dividends were paid in the previous financial year.

## Review of operations and financial performance

Revenue for the year was $180.6 million, which was a decrease of 9.6% on the PCP and up 14% on a 3-year compound annual growth rate (CAGR) basis. Revenue returned to growth in the second half of the year, despite challenging conditions, up 0.5% on the prior corresponding period (PCP).

Revenue growth was impacted by new customer numbers, which declined 22% on the PCP and 6% on a 3-year CAGR basis. Returning customers however increased 4% on the PCP to a record high of 490k, 31% on a 3-year CAGR and contributing 76% of all revenues. Active customers were 801k, which was a decrease of 8% on the PCP and up 11% on a 3-year CAGR basis.

Gross profit margin of 32.8% was down 0.5 percentage points on the PCP. Early benefits of margin optimisation and cost programs showed some improvements in gross profit margin in the second half.

Adore Beauty's statutory net loss after tax was ($559,000), down from net profit after tax of $2,377,000 in FY22.

1. Based on management estimates.

# Directors' Report cont.

Adore Beauty's ending cash balance was $27.8 million as at 30 June 2023, which was down $2.0 million on the prior year. This is primarily due to increased investment in inventory, above the prior year, to support continued growth. Investment was also made into our owned brand label, and website and mobile app development. With balance sheet flexibility, in FY24 Adore Beauty will continue to invest in key strategic initiatives, including owned brands, to support scaling revenue and margin expansion.

Adore Beauty continues to focus on growing the business by delighting customers with its compelling customer value proposition. This includes offering a wide range of high-quality brands at great value, along with 130-day returns, free express shipping and complimentary samples for orders over $65, plus even more benefits through our Adore Society loyalty program.

In tandem with this, Adore Beauty is executing on longer-term strategic initiatives to grow revenue, acquire and retain customers with higher lifetime value, improve gross profit margin and reduce expenses. Adore Beauty's strategic initiatives revolve around customer centricity, brand building and operational efficiency.

Adore Beauty continues to build its loyalty program and promote its mobile app, which launched in September 2020. The app also continues to grow in impact, contributing 21% of revenue in FY23. Additionally, Adore Beauty continues to develop its range, offering new brands and private label. The owned brand range continues to grow, with 38 private label products now available across the AB Lab, Viviology and Adore Beauty brands.

Please refer to the operational review section and the Group's FY23 results presentation for further commentary on the consolidated entity's financial and operational results.

## Business strategies into the future

The Company has refined its future growth strategy – with focus on customer centricity, increasing brand awareness and operational optimisation through efficiency:

### 1) Customer centricity

Adore Beauty will focus on understanding the customer by:

- Anticipating future customer needs and wants through research, data and insights. In FY24, the business will deliver a 'State of Beauty' report, which informs the strategy.
- Looking ahead, the business will also further develop its loyalty program and deliver customer experience enhancements, supported by the use of artificial intelligence and beauty technology.

### 2) Growing brand awareness

Adore Beauty will grow brand awareness through the following:

- 'In real life' brand activations
- Retaining focus on the core customer and expanding into the 41-50 year old female demographic
- Range and adjacency expansion
- Growing its margin enhancing private label offering
- Exploring any potential M&A opportunities

### 3) Delivering operational optimisation

Adore Beauty will deliver operational enhancements through a number of initiatives, for example:

- Marketing efficiency and effectiveness
- Further scaling the mobile app
- Partner terms

## Material business risks

There are a number of market, financial and operational risks both specific to Adore Beauty and externally that could have an adverse effect on the Company's future performance. Adore Beauty has a risk management framework in place with internal control systems to identify key business risks and mitigate them to an acceptable level. The material business risks are summarised below:

| Risk | Description |
| --- | --- |
| External economic factors affecting continued growth | While the retail e-commerce market and the beauty and personal care market have been growing, there is no guarantee this will continue into the future. Adore Beauty is subject to factors outside its control including Australia's economic outlook, movements in the cash rate and unemployment rate, levels of building activity, instability in real estate and housing markets, consumer sentiment, global economic outlook, foreign economic shocks and adverse exchange rate instability. One or more of these factors could cause a contraction in the forecasted growth of retail e-commerce or the demand for beauty and personal care products. |
| Supply chain disruption | The Company's supply chain is important in ensuring that products are available for our customers. The key risks in Adore Beauty's supply chain include events of global significance that disrupt global supply chains and domestic disruption due to natural disasters such as bush fires and floods. If Adore Beauty's supply chain is significantly disrupted, this may have a material adverse effect on the Company's financial and/or operating performance. |
| New and existing competitors could adversely affect prices and demand for beauty and personal care products and decrease our market share | The beauty and personal care market is highly fragmented. Competition can arise from several sources including traditional physical retailers, omni-channel, mono-channel, multi-branded retailers, and online-only e-commerce competitors. Existing online competitors may strengthen their market share through increased funding or industry consolidation, an increase in brand awareness or attractiveness to customers, or through financial or operational advantages which allow them to compete aggressively on pricing. Competition may also come from third-party suppliers establishing their own online presence as opposed to utilising Adore Beauty's network. This may increase the cost of customer acquisition and lower margins due to pricing pressure. The Company's market share in the beauty and personal care segment may decline if competitors increase their focus on growing online sales through investment in the retail e-commerce market. |
| Supplier relationships | The success of Adore Beauty's business and its ability to grow relies on retaining its existing key supplier relationships and continue to attract suppliers on acceptable terms. Adore Beauty's supply agreements are negotiated on a case-by-case basis and there is no guarantee that these arrangements will be renewed on like terms. The deterioration of the Company's relationships with these suppliers or inability of these suppliers to renew contractual agreements on terms acceptable to Adore Beauty, or at all, may have a material adverse effect on the financial and/or operational performance in the future. |
| Health, safety and wellbeing risks | The health, safety and wellbeing of the Adore Beauty team and everyone who could be impacted by our business, including customers and suppliers, is our highest priority. A major health, safety or wellbeing incident could have adverse impacts on an employee, supplier or customer of Adore Beauty. |
| Employee recruitment and retention | The future success of Adore Beauty is dependent on its key personnel and its ability to attract and retain individuals that will complement our culture and retain an experienced and high performing team. Competition for key personnel within the retail e-commerce market could increase the demand and cost for quality employees. The Company's ability to meet its labour needs while controlling costs associated with hiring and training employees is subject to external factors such as unemployment rates, prevailing wage legislation and changing demographics. This may impact the Company's ability to achieve its financial and/or operational performance goals. |

# Directors' Report cont.

| | |
|---|---|
| Performance and reliability of Adore Beauty's website, databases, its operating systems and internet | Adore Beauty's website, databases, IT, warehouse systems and management systems are critically important to our success in attracting and retaining customers and maximising sales conversion from those customers. Adore Beauty also relies on services provided by third party providers. The Company's financial and operational performance could be adversely impacted by a system failure within its own systems or to third-party suppliers of its systems and products. This may adversely affect the customer experience and reduce the attractiveness of its website to customers, limiting future sales. |
| Cyber and security risks | Adore Beauty could be subject to a range of cyber risks which could result in unauthorised access or disclosure of information held by the Company. A cybersecurity incident could adversely impact Adore Beauty's ability to operate and to meet the needs of its customers. Unauthorised disclosure of, or unauthorised access to, personal information under the control of the Adore Beauty could have an adverse impact on the Company's reputation, market position, financial performance and could result in regulatory action. |

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

## Matters subsequent to the end of the financial year

No matters or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or any State law.

## Information on directors

| | |
|---|---|
| Name: | **Marina Go** |
| Title: | Non-Executive Chair |
| Qualifications: | B.Arts, MBA |
| Experience and expertise: | Marina is an experienced independent non-executive director. She serves on the boards of a diverse range of listed and private entities across retail, convenience, energy and infrastructure. Marina has more than 25 years of leadership experience in the media industry, including CEO, GM and Publishing Director roles. She is a member of O'Connell Street Associates, the Australian Institute of Company Directors and Chief Executive Women. |
| Other current directorships[1]: | Non-executive director of Autosports Group Ltd (appointed October 2016)<br>Non-executive director of Transurban Group (appointed 1 December 2021). |
| Former directorships (last 3 years)[2]: | Non-executive director of Pro-Pac Packaging Ltd (appointed 2018, resigned 23 November 2021)<br>Non-executive director of Booktopia Group Ltd (appointed November 2020, resigned 31 March 2022) |
| Special responsibilities: | Member of the Audit and Risk Management Committee |
| Interests in shares: | 27,407 ordinary shares |
| Interests in options: | None |
| Contractual rights to shares: | None |

| | |
|---|---|
| Name: | **Kate Morris** |
| Title: | Executive Director (part-time)<br>(Transitioned to Non-Executive Director from 1 July 2023) |
| Qualifications: | B.Bus. (Management) |
| Experience and expertise: | Kate is a co-founder of Adore Beauty, and was Director and joint CEO with James Height since the Company's formation in 2000 until 2018 when she became an Executive Director. Kate is a two-time winner of the Telstra Business Women's Awards (2010 and 2014), and the first woman to be awarded the Industry Recognition Award for e-commerce at the StarTrack ORIAs in 2017. She resigned from her role as Chief Innovation Office at Adore Beauty on 30 June 2023. |
| Other current directorships[1]: | Nil |
| Former directorships (last 3 years)[2]: | Nil |
| Special responsibilities: | Chief of Innovation (resigned 30 June 2023)<br>Member of the People and Remuneration Committee |
| Interests in shares: | 10,400,000 ordinary shares |
| Interests in options: | None |
| Contractual rights to shares: | None |

| | |
|---|---|
| Name: | **James Height** |
| Title: | Executive Director (part-time)<br>(Transitioned to Non-Executive Director from 1st July 2023) |
| Qualifications: | B.Arts, B.Law, MBusMgt |
| Experience and expertise: | James is a co-founder of Adore Beauty, and was Director and joint CEO since the Company's formation in 2000 until 2018 and then sole CEO between 2018 and August 2020. James was most recently the Chief Data Officer at Adore Beauty before resigning on 30 June 2023. |
| Other current directorships[1]: | Nil |
| Former directorships (last 3 years)[2]: | Nil |
| Special responsibilities: | Chief of Data and Analytics (resigned 30 June 2023) |
| Interests in shares: | 10,400,000 ordinary shares |
| Interests in options: | None |
| Contractual rights to shares: | None |

# Directors' Report cont.

| | |
|---|---|
| Name: | **Sandra Birkensleigh** |
| Title: | Non-Executive Director |
| Qualifications: | B.Com |
| Experience and expertise: | Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience, retail and resource companies. Sandra was formerly a partner of PwC for 16 years. Sandra is a member of the Institute of Chartered Accountants in Australia and New Zealand, a member of the Australia Institute of Company Directors and a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow). |
| Other current directorships[1]: | Non-executive director of Horizon Oil Ltd (appointed February 2016)<br>Non-executive director and Chair of Auswide Bank Ltd (appointed January 2015) |
| Former directorships (last 3 years)[2]: | Nil |
| Special responsibilities: | Chair of the Audit and Risk Management Committee<br>Member of the People and Remuneration Committee |
| Interests in shares: | 7,407 ordinary shares |
| Interests in options: | None |
| Contractual rights to shares: | None |

| | |
|---|---|
| Name: | **Lisa Hennessy** |
| Title: | Non-Executive Director |
| Qualifications: | B.Sci (Electrical Engineering), MBA, GAICD |
| Experience and expertise: | Lisa has extensive non-executive director experience across listed, private and not-for-profit organisations. Lisa is currently a Non-Executive Director of ASX listed Cleanspace Holdings Limited and served as Lead Independent and Non- Executive Director of Nitro Software Limited. Previously, Ms Hennessy has held executive roles within global organisations and enterprise software businesses, including Bain, General Electric and Del Monte Foods working across the USA, Australia and EMEA. Lisa is a graduate of Australian Institute of Company Directors. |
| Other current directorships[1]: | Non-executive director of Cleanspace Holdings Ltd (appointed December 2021) |
| Former directorships (last 3 years)[2]: | Non-executive director of Nitro Software Ltd (Resigned March 2023) |
| Special responsibilities: | Chair of the People and Remuneration Committee<br>Member of the Audit and Risk Management Committee |
| Interests in shares: | 50,000 ordinary shares |
| Interests in options: | None |
| Contractual rights to shares: | None |

1. 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.
2. 'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## Joint Company Secretaries

Stephanie Carroll (BEc.) has held the role of Company Secretary since October 2020. Stephanie is Chief Financial Officer (CFO) of the Company. Stephanie is a Certified Practicing Accountant and holds a Bachelor of Economics (Honours) from the University of Sydney.

Melissa Jones has held the role of Company Secretary since October 2020. Melissa is the General Manager of Company Matters, Link Group's governance and Company secretarial team. Melissa has over 20 years' experience as a lawyer, Company secretary and governance professional. Melissa is admitted as a Solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws (Honours).

## Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2023, and the number of meetings attended by each director were:

| | Full board | | People and Remuneration Committee | | Audit and Risk Management Committee | |
|---|---|---|---|---|---|---|
| | **Attended** | **Held** | **Attended** | **Held** | **Attended** | **Held** |
| Marina Go | 15 | 15 | | | 4 | 4 |
| Kate Morris | 14 | 15 | 4 | 4 | | |
| James Height | 15 | 15 | | | | |
| Sandra Birkensleigh | 15 | 15 | 4 | 4 | 4 | 4 |
| Lisa Hennessy | 15 | 15 | 4 | 4 | 4 | 4 |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

The Board also convenes special committee meetings from time to time as may be required. There were two special purpose Board committee meetings held during the year.

# Remuneration Report

Dear Shareholder,

On behalf of the Board, we are pleased to present Adore Beauty's Remuneration Report for the financial year ended 30 June 2023.

## Overview

### Financial Performance

The 2023 financial year saw the delivery of $180.6 million in revenue, which was a decrease of 9.6% on the previous year but up 14% on a 3-year CAGR basis. FY23 was a year in a post lockdown environment, cycling periods of significant growth. It was also a year with some headwinds – including a return to bricks and mortar stores versus online, challenges in consumer sentiment and inflationary cost pressures. Improvements were seen in the second half of the financial year, with revenue returning to year-on-year growth and operational efficiency and cost management a key focus.

Customer loyalty proved resilient through FY23, with returning customers up 4% on the prior corresponding period and 31% on a 3-year CAGR basis. Gross profit margin was 32.8%, down 0.5 percentage points on prior year, improving in the second half.

Management worked through the year to deliver strategic initiatives aimed at driving long-term growth for Adore Beauty, including further support for the loyalty proposition, promotion of the Mobile App, plus increasing the product offer with further development in private label.

### Our People

At Adore Beauty, team and culture are fundamental to the achievement of business goals and to the future success of the consolidated entity.

In January 2023, new Chief Executive Officer (CEO) Tamalin Morton joined the business, bringing significant retail experience from over two decades' retail leadership, including CEO, General Manager and Chief Operating Officer roles at Best Friends Pets and My Pet Warehouse, Australian Pharmaceutical Industries' Priceline (API), Kathmandu, and Spotlight Retail Group. The appointment also created the opportunity to review and re-focus on the strategic plan and opportunities.

With respect to people, there were several initiatives that were delivered in the financial year. Work was done to increase flexibility and wellbeing options available to all our employees, and the business was runner up in the AFR BOSS Best Places to Work list in 2023, in the retail hospitality and tourism category. In addition to our flexibility initiatives, the business continued its commitment to Diversity and Inclusion efforts in a number of key areas. These initiatives include early work on our first Reflect Reconciliation Action Plan (RAP) and the inclusion of an Acknowledgement of Country on our website. Other initiatives in 2023 were focused on greater allyship with the LGBTQIA+ community.

In 2023, the business also invested in both our Work Health & Safety and learning management systems to further enable our employees and enhance their overall employee experience, with Health & Safety remaining the top priority for Adore Beauty.

### Key Management Personnel (KMP) Changes

In August 2022, after 2 years of employment at Adore Beauty, Tennealle O'Shannessy resigned as CEO, with an effective end date of 30 December 2022. Following an extensive executive search, Tamalin Morton was appointed our new CEO, commencing on 9 January 2023.

As part of their planned transition, Kate Morris and James Height stepped down as Executive Directors on 30 June 2023. Both remain on the Board in their new capacity as Non-Executive Directors.

## Remuneration Changes during the financial year

### Fixed Remuneration

As outlined in last year's report, the Board conducted a detailed remuneration benchmarking exercise for KMP. The People and Remuneration Committee considered Australian remuneration practices and benchmarks to ensure that we continuously attract, motivate and retain top talent in a highly competitive talent market. This included consideration of predominantly ASX-listed financially comparable company benchmarks, recognising that Adore Beauty primarily competes for talent in this market.

The total target CEO and CFO remuneration is in line with the Board's target of 50th percentile of benchmarked roles against participating companies with headcount 100 - 350; revenue \$100 million – \$400 million; excluding ASX 300. This review resulted in a market adjustment for the CFO (refer section 2a).

### STI

Performance targets are linked directly to company financial results for FY23 and individual performance including alignment with values and behaviours. This plan was introduced in FY22 to retain and provide an incentive to Executive Management KMP and provides them with an 'at risk' incentive to remain clearly focused on the elements of the strategic plan that mostly impact profitable growth.

FY23 outcomes for Executive Management KMP (excluding incoming CEO Tamalin Morton) were based on the company full year results, with the overlay of an individual performance modifier. The CFO received no payment under the full year plan.

The Board approved a modified STI plan for the incoming CEO that focused on results for the second half of FY23, reflecting the period of her employment. Payment at 100% of target (100% of maximum) was approved for the CEO.

### LTI

The first offer under the LTIP approved by shareholders at the FY22 AGM resulted in a rights award for the CFO. These awards will vest at the end of FY25, subject to achievement of relative Total Shareholder Returns (rTSR) and revenue growth targets (refer section 2c).

As announced at the time of the CEO's appointment, the Board structured a sign-on equity package of both options and performance rights (refer section 6). In determining the structure and quantum for this equity award, the Board took into consideration practices and benchmarks to ensure that Adore Beauty is able to attract, motivate and retain top talent while maintaining its alignment with increasing shareholder value.

## Looking ahead to FY24

To focus on performance and retention, the Board will place a greater proportion of remuneration 'at risk' for KMP and senior executives. This includes increasing STI targets and limiting fixed remuneration increases. The stretch target has been increased to drive outperformance.

Goals will remain focused on profitable revenue growth.

### Conclusion

FY23 was a year in a post lockdown environment, cycling periods of significant growth. The normalised environment saw consumers return to bricks and mortar stores, impacting online retail sales. It was also a year with some challenges in consumer sentiment and inflationary cost pressures.

Looking ahead to FY24, we see growth opportunities for the business. With this in mind, we are focused on ensuring our remuneration framework is market competitive, to support our business growth strategy whilst also reinforcing our strong company values and maintaining alignment to the expectations of our stakeholders.

Sincerely,

**Lisa Hennessy**
People and Remuneration Committee

# Remuneration Report cont.

CONTENTS

The remuneration report is set out under the following main headings:



## 1. Reward Overview

### a. What does this report cover?

The remuneration report provides a summary of remuneration arrangements for the consolidated entity's Key Management Personnel (KMP) for the financial year ended 30 June 2023. This report has been prepared in accordance with the requirements of the Corporations Act 2001 and its Regulations and subsequently audited by Adore Beauty's External Auditor.

### b. Key Management Personnel (KMP)

In this Report we refer to 'Executive KMP' which includes the Chief Executive Officer (CEO), Chief Financial Officer (CFO), the Executive Director and Chief of Data and Analytics, and the Executive Director and Chief of Innovation. Whilst the term 'Executive Management KMP' refers to the CEO and CFO only.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The KMP of the consolidated entity are outlined in the following table:

| Name | Title | Independent | Term |
|---|---|---|---|
| ***Non-Executive Directors*** | | | |
| Marina Go | Non-Executive Chair | Yes | Full financial year |
| Sandra Birkensleigh | Non-Executive Director | Yes | Full financial year |
| Lisa Hennessy | Non-Executive Director | Yes | Full financial year |
| ***Executive Directors*** | | | |
| James Height | Executive Director and Chief of Data and Analytics | No | Full financial year. Transition to Non-Executive Director 1 July 2023 |
| Kate Morris | Executive Director and Chief of Innovation | No | Full financial year. Transition to Non-Executive Director 1 July 2023 |
| ***Executive Management*** | | | |
| Tamalin Morton | Chief Executive Officer | | Appointed as Chief Executive Officer on 9 January 2023 |
| Tennealle O'Shannessy | Chief Executive Officer | | Resigned as Chief Executive Officer on 10 August 2022, with an effective end date of 30 December 2022 |
| Stephanie Carroll | Chief Financial Officer | | Full financial year |

## c. Role of the People and Remuneration Committee

The People and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The remuneration philosophy is to attract, motivate and retain experienced and high performing personnel.

## d. Governance framework

The reward framework is designed to align executive reward to shareholders' interests. The Board maintains overall accountability for the oversight of the remuneration approach for all Adore Beauty Executives and Non-Executive Directors (NED), having regard to the recommendations made by the People and Remuneration Committee. More information on the Board's role and Adore Beauty corporate governance policies for KMP can be found on Adore Beauty's website at: https://www.adorebeautygroup.com.au/investor-centre/

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director, and Executive KMP remuneration is separate.

During the financial year ended 30 June 2023, the People and Remuneration Committee did not obtain advice or a recommendation from any remuneration consultants.

# Remuneration Report cont.

CONSULTATION WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

**THE ADORE BEAUTY BOARD**

Maintains overall accountability for oversight of remuneration approach for all executives, having regard to recommendations made by People & Remuneration Committee

**PEOPLE AND REMUNERATION COMMITTEE**

Responsible for reviewing and making recommendations to the Board on matters including (but not limited to):

- Remuneration of KMP
- At risk remuneration policies and participation for executive KMP
- Talent management, health and safety, diversity and code of conduct policies

**ADVISORS**

The People and Remuneration Committee may seek advice from independent remuneration consultants in determining appropriate senior executive remuneration.

During the financial year ended 30 June 2023, the People and Remuneration Committee did not receive formal advice from external consultants.

**MANAGEMENT**

Responsible for making recommendations to the People and Remuneration Committee on matters including (but not limited to):

- Remuneration of other executives and senior managers
- At risk remuneration policies for other employees
- Implementing company policies on people and culture initiatives

## e. Remuneration framework

The executive reward framework consists of the following components:

- fixed remuneration, comprising base salary and Company contributions to superannuation;
- short-term performance incentive;
- retention incentive;
- long term performance incentive; and
- non-monetary benefits

In combination, these components comprise the executive's total reward as outlined in the table below. As part of their development, the Executive Management KMP remuneration at Adore Beauty has been evolving so that for FY23, the table below reflects our remuneration framework.

For FY23 a modified remuneration framework for the CEO was approved by the Board, upon commencement date in role (9 January 2023). The structure included fixed remuneration, a modified short-term incentive (detailed in section 2B) and a sign-on equity package (detailed in section 6).

| Remuneration Component | | Payment Vehicle | Benchmark | Performance Measures | Link to Strategy |
|---|---|---|---|---|---|
| **Fixed Remuneration** | | Cash Salary and Retirement Benefits[i] | Reference to the market median remuneration for similar roles in ASX listed companies of similar size to Adore Beauty. | Scope and responsibilities of role; together with skills, experience, and performance of individual. | Market competitive fixed remuneration is paid to attract, motivate, and retain Executive KMP with the appropriate experience and talent to drive Adore Beauty's strategy. |
| | | | **+** | | |
| **Variable Remuneration** | **Short-Term Incentive (STI)** | Any award achieved will be delivered, following the release of end of year results as a cash payment. | Target opportunity based on a % of base salary (varies by role). Maximum opportunity of 120% of target. | Key Adore Beauty financial measures are used to determine any STI award payable. These measures represent the key priority areas for the current year. The measures relate to profit, revenue, and growth. An individual performance overlay applies. | Provides a reward linked to the delivery of short-term (1 year) objectives. |
| | | | **+** | | |
| | **Retention Incentive** | Deferred cash award in FY22, with payments made in FY23 and due in FY24. | Award based on a % of base salary, payable in 2 tranches. | Tenure together with ongoing satisfactory (or better) performance. | In the absence of an Executive LTI grant in FY22, this one-off award provides a bridge to the FY23 LTI grant due to vest in 2025. |
| | | | **+** | | |
| | **Long-Term Incentive (LTI)** | Performance Rights with vesting based on the delivery of set performance measures over a 3-year performance period. Grants are made using market value. | Grant based on a % of base salary. | External Measure: Relative Total Shareholder Return (50%) + Internal Measure: Revenue Growth (with EBITDA margin underpin) 50% | The LTI builds Executive KMP equity ownership. It aligns the interests of KMP with shareholders. |
| | | | **=** | | |
| **Total Remuneration** | | | On-target level based on market median for companies of similar size to Adore Beauty. | | |

i. Retirement Benefits are delivered under defined contribution superannuation funds for all KMP. Retirement benefits are set by reference to relevant legislation.

# Remuneration Report cont.

## f. Reward Principles

The structure of Adore Beauty remuneration is aligned to business outcomes that deliver value to shareholders. Systems of evaluation for performance of senior executives are based on predetermined KPIs, including alignment with our values.

The Board retains discretion on variable remuneration to mitigate the risk of unintended consequences and to alter outcomes in certain circumstances.

**ADORE BEAUTY VALUES**

| WORKING FOR EACH OTHER | DOING THE RIGHT THING | ALWAYS GROWING | A POSITIVE APPROACH |
|---|---|---|---|
| All executives work together towards sharing in the success of consolidated corporate goals | Promoting environment, social and governance behaviours and acting within ASX and corporate guidelines | Incentives linked with creation of sustainable shareholder returns | Setting challenging goals within performance structure, and working towards them with energy |

**REWARD PRINCIPLES**

| | | |
|---|---|---|
| Equitable, motivating and attractive to skilled executives | Aligned with long-term interest of shareholders | Incentives that are challenging and linked with sustainable returns |

# 2. Executive Remuneration

## a. Fixed remuneration

During the year ended 30 June 2023 the Board undertook a comprehensive benchmarking exercise to explore the peer group relativity of fixed remuneration, as well as consideration of market position at total target remuneration. This considered the relative size, revenue, and industry of comparator companies within Australia. In recognising that the roles have changed since the listing, the Board thought it prudent to review benchmarks now to ensure that Executive Management KMP of the appropriate calibre and experience are retained and attracted as Adore Beauty builds out its growth strategy in an ASX listed environment.

Following the comprehensive benchmarking exercise, a fixed remuneration increase of 27.5% was approved for the CFO. This recognises the increased responsibilities as CFO of a listed entity. Accompanying the remuneration increase, the notice period for the CFO was increased from 3 months to 6 months, reflecting the key nature of the role. In line with the Superannuation Guarantee legislation, an adjustment was made effective 1 July 2022 to company contributions for Executive KMP.

## b. Short term remuneration

The maximum incentive for the CFO was limited to $79,200. Upon appointment in January 2023, a tailored STI plan was established for the CEO for the remainder of FY23. The maximum incentive offered to the CEO upon appointment in January 2023 was limited to $100,000 for FY23. The Executive Directors did not participate in the STI program.

While retaining the STI performance metrics of Revenue and EBITDA, the Board made EBITDA both a gateway and a target for FY23. This lifted the importance of EBITDA from purely a gateway to amplify the focus on profitable growth in FY23.

| | |
|---|---|
| Who was invited to participate? | The CEO and CFO were the only KMP who were invited to participate in FY23. The Executive Directors did not participate. Other members of senior management were also eligible to participate, provided they were employed on 1 January 2023 (minimum of 6 months service). |
| What is the performance measurement period? | For CFO the corresponding performance period was 1 July 2022 - 30 June 2023.<br>For CEO the corresponding performance period was 1 January 2023 – 30 June 2023. |
| What were potential earnings? | The CFO had a target opportunity based on a percentage of base salary as follows:<br>• 20% of base salary at target (24% at maximum, ie $79,200 at maximum)<br>• For FY23 the maximum STI opportunity was 120% of the target opportunity.<br>The CEO had a maximum opportunity of $100,000 for FY23. |
| How is it paid? | The CFO receives their reward in cash.<br>The CEO receives their reward as 50% in cash and 50% in the form of Adore Beauty equity.<br>Superannuation may be payable, subject to the Superannuation Guarantee and Maximum Contribution Base. |
| Is there a gateway? | Yes, there is a minimum level of financial performance that must be reached to ensure alignment with shareholder interests. |
| How is performance measured? | For the CFO, the STI is based on two equally weighted financial components: Revenue and underlying EBITDA; and individual performance.<br>• Financial Results: three levels of performance (threshold, target and stretch) are based on Company budget. For FY23 target EBITDA must be achieved for any payment to be made.<br>• Individual Performance: The individual performance rating may reduce the payment. The maximum individual performance modifier is 100%.<br>Performance between target and stretch, the payment is based on straight line interpolation. Results between threshold and target are a cliff payment, there is no linear interpolation.<br>The Board reserves the right to exercise discretion.<br>The approved plan for the CEO relating to H2 is based on two equally weighted financial components: Revenue and operating EBITDA (i.e. full year EBITDA less Share Based Payment expenses).<br>• Financial Results: One metric each for revenue and operating EBITDA based on approved level for H2. |
| When is it paid? | The STI award is determined after the end of the financial year following a review of performance against measures. Payments are made in September, following the release of statutory audited results. |
| What happens if a participant leaves? | If a participant resigns or is terminated prior to payment, no STI is awarded.<br>The Board reserves the right to apply discretion in the case of a participant leaving due to ill health, death, redundancy or other circumstances. |

At the end of the 2023 financial year, the Board met to review performance against the established STI targets and consequent payments.

Neither EBITDA nor Revenue targets for the full year plan were met, resulting in no STI payment being made to the CFO.

The Revenue and EBITDA thresholds for the CEO's H2 plan were reached, resulting in a payment of $100,000, 50% to be paid in cash and 50% as equity.

| | | Actual Outcome | | |
|---|---|---|---|---|
| **Name** | **STI maximum % of base salary** | **STI earned as % of base salary** | **Total STI earned $** | **Actual Earned as % of Maximum Opportunity** |
| Tamalin Morton | 39.2% | 39.2% | $100,000 | 100% |
| Stephanie Carroll | 24% | – | – | – |

# Remuneration Report cont.

## c. Long term Remuneration

Equity awards were made to Executive Management KMP and selected senior employees under the new Long Term Incentive Plan.

| | |
|---|---|
| Who was invited to participate? | The CFO was the only KMP who was invited to participate in FY23. The Executive Directors did not participate. Other members of senior management were also invited to participate.<br><br>The CEO did not participate in the FY23 LTI Plan, but was offered a sign-on equity package upon commencement (refer section 6). |
| How is it paid? | Awards are in the form of performance rights. Each performance right is a right to acquire one ordinary share at no cost to the participant, subject to meeting vesting conditions over the performance period. |
| What is the performance period? | 3 years: 1 July 2022 – 30 June 2025. |
| What are potential earnings? | The CFO has the opportunity of up to 20% of base salary. |
| How is performance measured? | Awards are determined by performance against two equally weighted measures:<br>• Relative Total Shareholder Return (rTSR) against a peer group determined by the Board prior to the offer.<br>• Revenue Growth, subject to an EBITDA margin hurdle.<br><br>Performance is measured for each of the above measurements at the end of the three-year performance period. |
| How are payouts determined? | Awards are subject to two equally weighted measures: a market measure – Relative TSR; and a non-market measure – Compound Annual Growth Rate, with an EBITDA margin hurdle.<br>• Relative TSR (50% weighting)<br>The Company's TSR over the performance period will be assessed against selected companies in retail and ecommerce (TSR Peer Group) at 30 June 2025 to assess performance.<br><br>The proportion of performance shares that will vest will be determined by calculating the percentile ranking of the Company's TSR performance relative to the TSR performance of the TSR Peer Group in line with the following vesting schedule:<br>• Below 50th %le – no vesting<br>• At 50th %le – 50% vesting<br>• 75th %le or above – full (100%) vesting<br>– If the RTSR ranking is between 50th and 75th %le, pro-rata straight line vesting will occur between 50% and 100%<br>• Revenue growth (50% weighting) with minimum EBITDA margin gateway<br>If the EBITDA margin hurdle has been achieved at the end of the performance period (as defined in the Company's long-term plan), revenue growth targets will be tested. The proportion of performance shares that will vest will be determined by the revenue CAGR targets in line with the following vesting schedule:<br>• Less than target revenue CAGR – nil vesting<br>• At target revenue CAGR – 50% vesting<br>• At or above stretch revenue CAGR – full (100%) vesting<br>– If the CAGR% is between target and stretch, pro-rata straight line vesting will occur between 50% and 100% |

| | |
|---|---|
| Are there any malus or clawback provisions? | Malus and clawback apply to any awards made under this plan |
| What happens if a participant leaves? | If a participant is classified as a 'bad leaver' (resigns or is terminated with cause or due to poor performance), all unvested awards will be forfeited or lapse.<br><br>The Board reserves the right to apply discretion in the case of a 'good leaver' (leaving due to ill health, death, redundancy or other circumstances). In this case, a pro-rated portion of unvested awards may remain 'on foot' and be subject to applicable vesting provisions. |

## d. Service agreements

Remuneration and other terms of employment for Executive KMP are formalised in service agreements. Details of these agreements are as follows:

| | |
|---|---|
| Name: | **Tamalin Morton** |
| Title: | Chief Executive Officer |
| Agreement commenced: | 9 January 2023 |
| Term of agreement: | Ongoing employment |
| Details: | Base salary for the year ending 30 June 2023 of $510,000 plus superannuation capped at the maximum contribution base as referred to in the *Superannuation Guarantee Administration Act 1992* (Cth). Base salary is reviewed annually by the People and Remuneration Committee. Eligible to participate in short-term and long-term incentive programs. 6-month termination notice by either party, non-solicitation and non-compete clauses. |

| | |
|---|---|
| Name: | **Stephanie Carroll** |
| Title: | Chief Financial Officer |
| Agreement commenced: | 20 April 2020 |
| Term of agreement: | Ongoing employment |
| Details: | Base salary for the year ending 30 June 2023 of $330,000 plus superannuation capped at the maximum contribution base as referred to in the *Superannuation Guarantee Administration Act 1992* (Cth). Base salary is reviewed annually by the People and Remuneration Committee. Eligible to participate in short-term and long-term incentive programs. 6-month termination notice by either party, non-solicitation and non-compete clauses. |

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

## e. Looking ahead to FY24

FY23 saw the final element of the remuneration mix introduced; the LTIP. The Executive Management KMP remuneration mix has developed from purely fixed remuneration to a balance of fixed and variable remuneration. In FY24, we do not intend to make significant changes, but consolidate the existing offer.

In compliance with the increase in the Superannuation Guarantee rate, an adjustment was made for Executive KMP that was effective from 1 July 2023. For clarification, all contributions to superannuation for KMP are made in line with the Superannuation Guarantee rate, limited by the Maximum Contribution Base.

# Remuneration Report cont.

## 3. Non-Executive Directors' remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the People and Remuneration Committee. The People and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. The Chair's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chair is not present at any discussions relating to the determination of their own remuneration. Non-Executive Directors do not receive cash or equity incentives.

The maximum aggregate Directors' remuneration for the purposes of the ASX Listing Rules and the Constitution is $800,000 per annum of which $440,000 is currently used.

The following annual fees are payable to Non-Executive Directors:

- Chair – Marina Go $200,000
- Non-Executive Director – Sandra Birkensleigh $100,000
- Non-Executive Director – Lisa Hennessy $100,000

The following annual committee fees are payable to the Chair of the Audit and Risk Management Committee and the People and Remuneration Committee:

- Audit and Risk Management Committee – Sandra Birkensleigh $20,000
- People and Remuneration Committee – Lisa Hennessy $20,000

Directors do not receive any additional fees for being a member of a Board committee. All Directors' fees include superannuation payments required by law.

Details of the Non-Executive Directors' remuneration during the reporting period are given in the table below:

| | Year | Cash salary and fees | Superannuation | Total |
|---|---|---|---|---|
| ***Non-Executive Directors*** | | | | |
| Marina Go | **2023** | **$180,996** | **$19,004** | **$200,000** |
| | 2022 | $171,612 | $17,161 | $188,773 |
| Sandra Birkensleigh | **2023** | **$108,597** | **$11,403** | **$120,000** |
| | 2022 | $112,727 | $11,273 | $124,000 |
| Lisa Hennessy[i] | **2023** | **$108,597** | **$11,403** | **$120,000** |
| | 2022 | $8,264 | $826 | $9,090 |
| **Total of Non-Executive Directors** | **2023** | **$398,190** | **$41,810** | **$440,000** |
| | 2022 | $292,603 | $29,260 | $321,863 |

i. Represents remuneration from 3 June 2022 to 30 June 2022.

## 4. Share-based compensation

### Issue of shares

The CFO was awarded 41,512 Performance Rights during FY23 that will vest at the end of FY25, subject to achievement of rTSR and revenue growth targets (refer section 2c).

The CEO was awarded 1,500,000 Performance Rights in 3 tranches on commencement of employment. The performance conditions for vesting are outlined in section 6.

### Issue of options

500,000 options over ordinary shares were granted to the CEO upon commencement of employment. These will vest, subject to continued employment over a three-year period from the commencement date (9 January 2023):

- 100,000 Options to vest on the six-month anniversary of the Commencement Date; and
- the remaining 400,000 Options to vest on a quarterly basis following the six-month anniversary of the Commencement Date and ending on the three-year anniversary of the Commencement Date in equal tranches. Refer to section 6.

## 5. Company performance and remuneration outcomes

### Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. Incentive Payments are at the discretion of the People and Remuneration Committee. Refer to the tables below for details of the earnings and total shareholders return for the last two years.

The key financial metrics of the consolidated entity for the two years to 30 June 2023 are summarised below:

| | 2023 $'000 | 2022 $'000 |
|---|---|---|
| Sales revenue | 180,588 | 199,660 |
| Operating EBITDA[i] | 90 | 6,019 |
| Reported EBITDA[ii] | 632 | 5,337 |
| (Loss)/profit before income tax | (1,451) | 3,307 |

i. Operating EBITDA represents Earnings Before Share Based Payments, Interest, Tax, Depreciation and Amortisation.

ii. Reported EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortisation.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2023 | 2022 |
|---|---|---|
| Share price at financial year end ($) | $0.80 | $1.05 |
| Total dividends declared (cents per share) | Nil | Nil |
| Basic earnings per share (cents per share) | (0.59c) | 2.53c |

# Remuneration Report cont.

Details of the Executive Directors' remuneration during the reporting period are given in the table below:

| | | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments(v) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Year | Cash salary and fees | Cash Bonus | Annual leave(vi) | Super-annuation | Long service leave | Equity settled shares | Equity settled options/rights | Total |
| ***Executive Directors*** | | | | | | | | | |
| Kate Morris(i) | **2023** | **$189,989** | **–** | **($3,617)** | **$19,509** | **($4,020)** | **–** | **–** | **$201,861** |
| | 2022 | $185,803 | – | $3,617 | $18,580 | $4,020 | – | – | $212,020 |
| James Height(i) | **2023** | **$241,054** | **–** | **($12,751)** | **$19,509** | **($4,865)** | **–** | **–** | **$242,947** |
| | 2022 | $185,803 | – | $12,751 | $18,580 | $4,865 | – | – | $221,999 |
| ***Other Key Management Personnel:*** | | | | | | | | | |
| Tamalin Morton(ii) (iv) | **2023** | **$246,607** | **$50,000** | **$18,775** | **$12,646** | **$253** | **$50,000** | **$236,275** | **$614,556** |
| | 2022 | – | – | – | – | – | – | – | – |
| Tennealle O'Shannessy(iii) (vii) (viii) | **2023** | **$324,740** | **–** | **($27,664)** | **$12,646** | **–** | **–** | **($934,400)** | **($624,678)** |
| | 2022 | $510,520 | $35,417 | $27,664 | $23,568 | – | $104,081 | $520,960 | $1,222,210 |
| Stephanie Carroll(ix) | **2023** | **$330,520** | **$45,900** | **$40,241** | **$25,292** | **$4,451** | **$4,238** | **$62,893** | **$513,535** |
| | 2022 | $255,520 | $48,450 | $11,643 | $23,568 | – | $10,408 | $46,933 | $396,522 |
| **Total of Executive Personnel** | **2023** | **$1,332,910** | **$95,900** | **$14,984** | **$89,604** | **($4,181)** | **$54,238** | **($635,232)** | **$948,224** |
| | 2022 | $1,137,646 | $83,867 | $55,675 | $84,296 | $8,885 | $114,489 | $567,893 | $2,052,751 |

i. Cash salary and fees includes working from home allowance paid during COVID-19 lockdown periods.
ii. Represents remuneration from 9 January to 30 June 2023.
iii. Represents remuneration from 1 July to 30 December 2022.
iv. Cash bonus includes STI payment for FY23.
v. Share-based payments represent the share based payment expense recognised under AASB 2. The negative amounts relate to options and rights forfeited during the year.
vi. Non-monetary benefits reflect change in annual leave accrual between 30 June 2022 and 30 June 2023.
vii. Includes payment of accrued and unused annual and long service leave upon end of executive employment.
viii. Includes payment in lieu of notice.
ix. Cash bonus for 2023 includes retention incentive paid in FY23, plus accounting accrual for retention incentive payable in FY24. Cash Bonus for 2022 includes STI payment for FY22 plus accounting accrual for retention incentive paid in FY23.

# 6. Additional disclosures relating to key management personnel

## Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Received as part of remuneration | Additions[ii]/ Vested | Disposals/ Other | Balance at the end of the year |
|---|---|---|---|---|---|
| Kate Morris | 10,400,000 | | | | 10,400,000 |
| James Height | 10,400,000 | | | | 10,400,000 |
| Marina Go | 27,407 | | | | 27,407 |
| Sandra Birkensleigh | 7,407 | | | | 7,407 |
| Lisa Hennessy | | | 50,000 | | 50,000 |
| Tamalin Morton[iii] | | | | | – |
| Tennealle O'Shannessy[i] | 868,502 | | | (217,125) | 651,377 |
| Stephanie Carroll[i] | 86,850 | | | | 86,850 |
| | **21,790,166** | **–** | **50,000** | **(217,125)** | **21,623,041** |

i. Management shares are loan backed shares pursuant to which the Company has loaned participant monies to fund part or all of the purchase of management shares under a Management Equity Plan. The loan attaching to the shares is limited recourse and must be repaid out of any proceeds from the sale of the loan shares. Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:

a. 25% of the loan shares will vest on completion of the IPO (6 October 2020),

b. a further 25% of the loan shares vested on 30 June 2021,

c. a further 25% of the loan shares vested on 30 June 2022, and

d. the final 25% of the loan shares vested on 30 June 2023.

ii. Shares were purchased on-market. No awards were made or vested during the year.

iii. Tamalin Morton will be awarded shares as part of remuneration as part of her FY23 STI award (refer section 2b). These have not yet been awarded so the number of shares is not confirmed.

# Remuneration Report cont.

## Reconciliation of options movement (detailing awards, vested outcome, and expiry during the year)

| Executive | Plan | Year | Grant Date | Fair Value at Grant | Exercise Price | Expiry Date |
|---|---|---|---|---|---|---|
| Tamalin Morton | Options | 2023 | 27 Jan 23 | $0.52 | $1.53 | 27 Jan 33 |
| Tamalin Morton | Performance Rights | 2023 | 27 Jan 23 | $0.30 | $0.00 | 30 Nov 26 |
| Tennealle O'Shannessy | Options | 2021 | 6 Oct 20 | $3.52 | $6.75 | 30 Jun 26 |
| Stephanie Carroll | Options | 2021 | 6 Oct 20 | $3.52 | $6.75 | 30 Jun 26 |
| Stephanie Carroll | Performance Rights | 2023 | 15 Nov 22 | $1.64 | $0.00 | 30 Sep 27 |

The vesting conditions for the awards are detailed below.

**2021 Options**

Options will vest based on performance of the Company measured at the end of the performance period at 30 June 2024, subject to participant's continued employment. Of the total number of options granted:

- 50% are subject to the satisfaction of a vesting condition relating to the Company's revenue at the end of the performance period (Revenue component); and
- 50% are subject to the satisfaction of a vesting condition relating to the Company's EBITDA growth during the performance period (EBITDA component).

***Revenue component***

In order for any options in the Revenue component to vest, a threshold level of performance must be achieved. The percentage of options comprising the Revenue component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's revenue at the end of the performance period and % of options that vest:

- Less than threshold revenue – Nil
- Equal to threshold revenue – 50%
- Between threshold and maximum revenue – Straight line pro-rata vesting between 50% and 100%
- At or above maximum revenue – 100%

Threshold and maximum level of performance set by the Board.

***EBITDA component***

In order for any options in the EBITDA component to vest, a threshold level of performance must be achieved. The percentage of options comprising the EBITDA component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's EBITDA at the end of the performance period and % of options that vest.

- Less than threshold EBITDA – Nil
- Equal to threshold EBITDA – 50%
- Between threshold and maximum EBITDA – Straight line pro-rata vesting between 50% and 100%
- At or above maximum EBITDA – 100%

Threshold and maximum level of performance set by the Board.

Performance will not be retested if any of the Vesting Conditions are not satisfied at the end of the performance period. Any options that remain unvested at the end of the performance period will lapse immediately.

**2023 Performance Rights (S Carroll)**

Performance Rights will vest based on performance of the Company measured at the end of the performance period at 30 June 2025, subject to participant's continued employment. Of the total number of options granted:

- 50% are subject to the satisfaction of a vesting condition relating to the Company's relative Total Shareholder Return (rTSR) at the end of the performance period (TSR component); and
- 50% are subject to the satisfaction of a vesting condition relating to the Company's EBITDA growth at the end of the performance period (EBITDA component).

| | Movement | | | | At 30 June 2023 | | |
|---|---|---|---|---|---|---|---|
| 1 Jul 22 | Granted (awards) | Exercised | Other changes | 30 Jun 23 | Vested | Unvested | Exercisable |
| – | 500,000 | – | – | 500,000 | – | 500,000 | – |
| – | 1,500,000 | – | – | 1,500,000 | – | 1,500,000 | – |
| 555,000 | – | – | (555,000) | – | – | – | – |
| 50,000 | – | – | – | 50,000 | – | 50,000 | – |
| – | 41,512 | – | – | 41,512 | – | 41,512 | – |

***TSR component***

In order for any options in the Revenue component to vest, a threshold level of performance must be achieved. The percentage of options comprising the TSR component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's rTSR against comparator group at the end of the performance period and % of options that vest:

- Below 50th percentile – Nil
- Equal to 50th percentile – 50%
- Between 50th and 75th percentile – Straight line pro-rata vesting between 50% and 100%
- At or above 75th percentile – 100%

Threshold and maximum level of performance set by the Board.

***EBITDA component***

In order for any options in the EBITDA component to vest, a threshold level of performance must be achieved. The percentage of options comprising the EBITDA component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's EBITDA at the end of the performance period and % of options that vest.

- Less than threshold EBITDA – Nil
- Equal to threshold EBITDA – 50%
- Between threshold and maximum EBITDA – Straight line pro-rata vesting between 50% and 100%
- At or above maximum EBITDA – 100%

Threshold and maximum level of performance set by the Board.

Performance will not be retested if any of the Vesting Conditions are not satisfied at the end of the performance period. Any options that remain unvested at the end of the performance period will lapse immediately.

**2023 Performance Rights (T Morton)**

Performance Rights awarded to the CEO upon commencement will vest, subject to participant's continued employment over the performance period (27 January 2023 to 27 November 2026) and to the Company's share price:

- Tranche 1 – 350,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $2.50 or higher.
- Tranche 2 – 500,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $4.75 or higher.
- Tranche 3 – 650,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $6.75 or higher.

If not vested prior, these performance rights lapse 90 days after FY26 results announcement.

**2023 Options (T Morton)**

Options awarded to the CEO upon commencement will vest, subject to continued employment (9 January 2023):

- 100,000 Options to vest on the six-month anniversary of the Commencement Date; and
- the remaining 400,000 Options to vest on a quarterly basis following the six-month anniversary of the Commencement Date and ending on the three year anniversary of the Commencement Date in equal tranches.

# Remuneration Report cont.

## Summary of Loan Funded Management Equity (detailing awards, vested outcome, and changes during the year)

| Executive | Number of Loan Shares Held | Grant Date | Loan amount | Vesting | At 30 June 2023 Vested | At 30 June 2023 Unvested |
|---|---|---|---|---|---|---|
| Tennealle O'Shannessy | 651,377 | 31 Aug 20 | $651,377 | Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:<br>a. 25% of the Loan Shares vested on completion of the IPO;<br>b. a further 25% of the Loan Shares vested on 30 June 2021;<br>c. a further 25% of the Loan Shares vested on 30 June 2022; and<br>d. the final 25% of the Loan Shares was due to vest on 30 June 2023. This tranche was forfeited as the participant resigned before vesting date. | 651,377 | – |
| Stephanie Carroll | 86,850 | 31 Aug 20 | $86,850 | Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:<br>a. 25% of the Loan Shares vested on completion of the IPO;<br>b. a further 25% of the Loan Shares vested on 30 June 2021;<br>c. a further 25% of the Loan Shares vested on 30 June 2022; and<br>d. the final 25% of the Loan Shares vested on 30 June 2023. | 86,850 | – |

Management shares are loan backed shares pursuant to which the Company has loaned participant monies to fund part or all of the purchase of management shares under a Management Equity Plan. The loan attaching to the shares is limited recourse and must be repaid out of any proceeds from the sale of the loan shares.

The final 25% tranche of Tennealle O'Shannessy's loan share plan was forfeited on the participant's resignation and as a result the shares were bought back by the Company.

Note: treatment of Loan Shares in the event that the participant ceases employment with the Company. If either participant:

is a 'Bad Leaver' she will be entitled to retain her vested Loan Shares and her unvested Loan Shares will be forfeited in accordance with the terms of the Loan Funded Share Plan Deed. The participant will be considered a 'Bad Leaver' in circumstances where she is terminated as a result of gross misconduct, criminal activity, fraud, material breach of her employment contract, due to becoming disqualified from managing a corporation, poor performance or resignation by the participant other than where such resignation was caused by a material reduction in the compensation payable to the participant, a material reduction in the responsibilities of the participant or a material breach by Adore Beauty of the terms of the participant's employment contract.

## Management Equity – Future Vesting Profile

| | | | | | | | | Movement | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Executive** | **Plan** | **Grant Year** | **Grant Amount** | **% Vesting previous periods** | **Vesting in FY23** | **% incentive at risk** | **Vesting % FY24** | **Vesting % FY25** | **Vesting % FY26** | **Vesting % FY27** | **Comments** |
| Tamalin Morton | Options | 2023 | 500,000 | 0% | 0% | 100% | 44% | 32% | 24% | | |
| | Performance Rights | 2023 | 1,500,000 | 0% | | 100% | | | | | Rights vest subject to share price and lapse 27th November 2026 |
| Tennealle O'Shannessy | Options | 2021 | 555,000 | 75% | 0% | 0% | | | | | All awards lapsed on resignation |
| | Loan Funded Management Equity Plan | 2021 | 868,502 | 75% | 0% | 0% | | | | | 25% awards lapsed on resignation |
| Stephanie Carroll | Options | 2021 | 50,000 | 0% | 0% | 100% | 100% | | | | |
| | Loan Funded Management Equity Plan | 2021 | 86,850 | 100% | 0% | 0% | | | | | |
| | Performance Rights | 2023 | 41,512 | 0% | 0% | 100% | | 100% | | | |

## Other transactions with key management personnel and their related parties

During the financial year, payments for goods from director-related entities of Kate Morris and James Height of $32,196 (2022: $25,092) were made. The current trade payable balance as at 30 June 2023 was $5,395 (2022: $5,170). All transactions were made on normal commercial terms and conditions and at market rates.

***This concludes the remuneration report, which has been audited.***

# Directors' Report cont.

## Shares under option

Unissued ordinary shares of Adore Beauty Group Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 6/10/2020 | 30/06/2026 | $6.75 | 50,000 |
| 27/01/2023 | 27/01/2033 | $1.53 | 500,000 |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

## Shares issued on the exercise of options

No ordinary shares of Adore Beauty Group Limited were issued during the year ended 30 June 2023 and up to the date of this report on the exercise of options granted.

## Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

## Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

## Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 21 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 21 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

## Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

## Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

**Marina Go**
Chair

23 August 2023
Melbourne

# Auditor's Independence Declaration

GrantThornton

**Grant Thornton Audit Pty Ltd**
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Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001

T +61 3 8320 2222

## Auditor's Independence Declaration

### To the Directors of Adore Beauty Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Adore Beauty Group Limited for the year ended 30 June 2023, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

C S Gangemi
Partner – Audit & Assurance

Melbourne, 23 August 2023

**www.grantthornton.com.au**
**ACN-130 913 594**

CONTENTS



## General information

The financial statements cover Adore Beauty Group Limited as a consolidated entity consisting of Adore Beauty Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Adore Beauty Group Limited's functional and presentation currency.

Adore Beauty Group Limited is a listed public Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

## Registered office and principal place of business

Level 1
421 High Street
Northcote VIC 3070

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23rd August 2023. The directors have the power to amend and reissue the financial statements.

# Consolidated statement of profit or loss and other comprehensive income

## For the year ended 30 June 2023

| | Note | Consolidated 2023 $'000 | Consolidated 2022 $'000 |
|---|---|---|---|
| Revenues | 4 | 180,588 | 199,660 |
| Cost of sales | | (121,328) | (133,117) |
| Gross profit | | 59,260 | 66,543 |
| Other income | | 251 | 26 |
| **EXPENSES:** | | | |
| Advertising and marketing expense | | (26,685) | (28,204) |
| Employee benefits expense | 5 | (18,604) | (20,044) |
| Initial public offering and transaction costs | | – | (205) |
| Depreciation and amortisation expense | 5 | (2,148) | (1,856) |
| Finance costs | 5 | (186) | (200) |
| Other operating expenses | 5 | (13,339) | (12,753) |
| **(Loss)/profit before income tax expense** | | (1,451) | 3,307 |
| Income tax benefit/(expense) | 6 | 892 | (930) |
| **Profit/(Loss) after income tax expense for the year** | | (559) | 2,377 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Other comprehensive income for the year, net of tax | | – | – |
| **Total Comprehensive (loss)/income for the year** | | (559) | 2,377 |
| | | **Cents** | **Cents** |
| **(Loss)/earnings per share** | | | |
| Basic (loss)/earnings per share | 30 | (0.59) cents | 2.53 cents |
| Diluted (loss)/earnings per share* | 30 | (0.59) cents | 2.51 cents |

* The options issued are not included in the diluted EPS as they are non-dilutive.

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

# Consolidated statement of financial position

## As at 30 June 2023

| | Note | Consolidated 2023 $'000 | Consolidated 2022 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 27,761 | 29,766 |
| Trade and other receivables | | 2,512 | 1,049 |
| Current tax receivable | 6 | 1,795 | 2,253 |
| Inventories | 7 | 21,079 | 17,491 |
| Other current assets | | 2,201 | 1,042 |
| Total current assets | | 55,348 | 51,601 |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 726 | 763 |
| Right-of-use assets | 9 | 502 | 992 |
| Intangibles | 10 | 3,852 | 3,242 |
| Deferred tax asset | 6 | 1,983 | 2,630 |
| Total non-current assets | | 7,063 | 7,627 |
| **Total assets** | | 62,411 | 59,228 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 20,657 | 18,482 |
| Contract liabilities | 12 | 3,777 | 1,034 |
| Lease liabilities | | 482 | 548 |
| Employee benefits | 14 | 911 | 1,061 |
| Total current liabilities | | 25,827 | 21,125 |
| **Non-current liabilities** | | | |
| Lease liabilities | | 142 | 624 |
| Employee benefits | | 225 | 161 |
| Total non-current liabilities | | 367 | 785 |
| **Total liabilities** | | 26,194 | 21,910 |
| **Net assets** | | 36,217 | 37,318 |
| **EQUITY** | | | |
| Issued capital | 15 | 102,076 | 102,076 |
| Reserves | 16 | (66,991) | (66,449) |
| Retained earnings | 17 | 1,132 | 1,691 |
| **Total equity** | | 36,217 | 37,318 |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes.*

# Consolidated statement of changes in equity

For the year ended 30 June 2023

| | Note | Issued capital $'000 | Foreign currency translation reserve $'000 | Corporate re-organisation reserve $'000 | Share-based payments reserve $'000 | Retained profits/ (Accumulated losses) $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 July 2021** | | **102,076** | **(5)** | **(68,104)** | **978** | **(686)** | **34,259** |
| ***Transactions with owners*** | | | | | | | |
| Share-based payments | | – | – | – | 682 | – | 682 |
| **Total transactions with owners** | 16 | **–** | **–** | **–** | **682** | **–** | **682** |
| ***Comprehensive income*** | | | | | | | |
| Profit for the year | | – | – | – | – | 2,377 | 2,377 |
| **Total comprehensive income** | | **–** | **–** | **–** | **–** | **2,377** | **2,377** |
| **Balance at 30 June 2022** | | **102,076** | **(5)** | **(68,104)** | **1,660** | **1,691** | **37,318** |
| Balance at 1 July 2022 | | 102,076 | (5) | (68,104) | 1,660 | 1,691 | 37,318 |
| ***Transactions with owners*** | | | | | | | |
| Share-based payments | | – | – | – | (542) | – | (542) |
| **Total transactions with owners** | 16 | **–** | **–** | **–** | **(542)** | **–** | **(542)** |
| ***Comprehensive income*** | | | | | | | |
| Loss for the year | | – | – | – | – | (559) | (559) |
| **Total comprehensive loss** | | **–** | **–** | **–** | **–** | **(559)** | **(559)** |
| **Balance at 30 June 2023** | | **102,076** | **(5)** | **(68,104)** | **1,118** | **1,132** | **36,217** |

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated statement of cash flows

## For the year ended 30 June 2023

| | Note | Consolidated 2023 $'000 | 2022 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST) | | 196,198 | 219,235 |
| Receipts from fees and commissions (inclusive of GST) | | 986 | – |
| Payments to suppliers and employees (inclusive of GST) | | (198,472) | (215,135) |
| | | (1,288) | 4,100 |
| Interest received | | 251 | 26 |
| Interest and other costs of finance | | (140) | (135) |
| Income taxes received/(paid) | | 1,997 | (781) |
| Net cash from operating activities | 28 | 820 | 3,210 |
| **Cash flows from investing activities** | | | |
| Payments for intangible assets | 10 | (2,067) | (1,781) |
| Payments for property, plant and equipment | 8 | (171) | (106) |
| Net cash used in investing activities | | (2,238) | (1,887) |
| **Cash flows from financing activities** | | | |
| Repayment of lease liabilities | | (541) | (494) |
| Payments of finance charges on lease liabilities | | (46) | (65) |
| Net cash used in financing activities | | (587) | (559) |
| Net (decrease)/increase in cash and cash equivalents | | (2,005) | 764 |
| Cash and cash equivalents at the beginning of the financial year | | 29,766 | 29,002 |
| Cash and cash equivalents at the end of the financial year | | 27,761 | 29,766 |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

## Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations has not had a material effect on the consolidated entity.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### New or amended Accounting Standards which have been issued not yet effective

The consolidated entity has considered Accounting Standards and Interpretations which have been issued but are not yet effective, identifying the following which are relevant to the consolidated entity:

- AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as current or non-current
- AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants
- AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates

When these amendments are first adopted for the year ending 30 June 2024, there will be no material impact on the financial statements.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

### Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### Historical cost convention

The financial statements have been prepared under the historical cost convention.

#### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 25.

*Note 1. Significant accounting policies continued*

## Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adore Beauty Group Limited ('Company' or 'parent entity') as at 30 June 2023 and the results of all subsidiaries for the year then ended. Adore Beauty Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

## Operating segments

The consolidated entity operates in one segment being the sale of beauty and personal care products through its online platform. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

## Foreign currency translation

The financial statements are presented in Australian dollars, which is Adore Beauty Group Limited's functional and presentation currency.

### Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

## Revenue recognition

### Sale of goods

The consolidated entity's contracts with customers generally include one performance obligation being the sale of goods. Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Cash payment is generally received at the point of sale.

A right of return is held by customers. Adore Beauty has measured the value of this right of return, presented within other assets, and corresponding refund liability, presented within other payables, at the end of the reporting period based on the amount of consideration received from customers for which the consolidated entity does not expect to be entitled based on its refund policy and historical refund rates.

### *Note 1. Significant accounting policies continued*

#### Commission revenue

Adore Beauty has agreements with select brands, whereby its performance obligation is to facilitate the sale of the Brands' products through Adore Beauty's website. Adore Beauty is the agent in such transactions as it does not control the specified goods before they are transferred to the retail customer. Control of products under such arrangements are retained by the Brand until the products are sold to the retail customer, and does not at any point, transfer to Adore Beauty. Therefore, whilst gross proceeds are received, Adore Beauty recognises revenue on a net basis, being the commissions received on eligible sales, at the point in time when Adore Beauty has satisfied its performance obligation.

#### Marketing revenue

Marketing revenue is recognised over time as the services are rendered based on a fixed price. Marketing revenue is generated through short-term contracts with Brands to provide individualised marketing campaigns or advertising space on Adore Beauty's website for an agreed period of time. Where consideration for such campaigns is received at inception of the contract, it is initially recognised as a contract liability and recognised as revenue over the period the services are rendered.

#### Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### Other income

Other income is recognised when it is received or when the right to receive payment is established.

## Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

#### Gift voucher liability

Gift vouchers are considered a prepayment by a customer for goods to be delivered in the future. The consolidated entity has an obligation to transfer the goods in the future – creating a performance obligation. The consolidated entity recognises a current gift voucher liability as a contract liability for the amount of the prepayment and recognises revenue when the customer redeems the gift voucher and the entity fulfils the performance obligation related to the transaction, or where breakage is applied. Breakage, being the customer's unexercised right, is estimated and recognised as revenue in proportion to the pattern of rights exercised by the customer and the likelihood of the gift voucher being redeemed by the customer is remote.

## Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

## *Note 1. Significant accounting policies continued*

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Adore Beauty Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries, have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

## Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

## Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## Trade and other receivables

Trade and other receivables include amounts due from suppliers for rebates earned in the ordinary course of the business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. Trade and other receivables are initially recognised at fair value and subsequently at fair value less any provision for impairment.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure expected credit losses, trade receivables have been grouped based on days overdue.

### *Note 1. Significant accounting policies continued*

## Inventories

The first in, first out (FIFO) method of inventory valuation is used. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit and stock on hand are stated at the lower of cost and net realisable value. Cost is comprised of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

## Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

| | |
|---|---|
| Computer equipment | 50% |
| Plant and equipment | 2.5% – 20% |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

## Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

## Intangible assets

Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

## *Note 1. Significant accounting policies continued*

### Product development

Product development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to 10 years.

### Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

### Website and mobile app

Website and mobile app costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

## Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

## Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

## Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

## Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments as a result of a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

# Notes to the Financial Statements cont.

### *Note 1. Significant accounting policies continued*

## Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

## Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

## Employee benefits

### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

### Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

## Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Monte Carlo simulation approach or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

## Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

## Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Adore Beauty Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

# Notes to the Financial Statements cont.

### *Note 1. Significant accounting policies continued*

## Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

# Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

## Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes pricing model for options subject to non-market performance conditions such as continued employment, and Monte Carlo simulation method for Fair value of awards with Relative TSR performance condition. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

## Revenue from contracts with customers involving the sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

## Determination of variable consideration

Judgement is exercised in estimating variable consideration which is determined having regard to past experience with respect to the goods returned to the consolidated entity where the customer maintains a right of return pursuant to the customer contract. Revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised under the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

## Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease will be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, if there is a significant event or significant change in circumstances.

## *Note 2. Critical accounting judgements, estimates and assumptions continued*

### Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Estimation of useful lives of intangible assets

The consolidated entity determines the estimated useful lives and related amortisation charges for its finite life intangible assets. The consolidated entity has reviewed the useful lives of intangible assets in the year, including by comparison to comparable companies, and concluded that the useful lives adopted remains appropriate. The useful lives could change significantly as a result of technical innovations or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down

### Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (cash generating unit).

The recoverable amount of an asset or cash generating unit (CGU) is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current marketing assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the Profit or Loss. They are allocated to reduce the carrying amount of assets in the CGU on a pro-rata basis. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

There was no impairment of assets in the financial year.

# Notes to the Financial Statements cont.

## Note 3. Operating segments

### Identification of reportable operating segments

The consolidated entity operates in one segment being the sale of beauty and personal care products through its online platform. Sales are predominantly through the Australian geographical region, with New Zealand sales being immaterial. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated. The information reported to the CODM is on at least a monthly basis.

### Major customers

During the current and previous financial year, no individual customer contributed more than 10 per cent of the consolidated entity's revenue.

## Note 4. Revenue

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| *Revenue from contracts with customers and suppliers* | | |
| Sale of goods – point in time | 179,697 | 199,660 |
| Commission revenue – point in time | 594 | – |
| Marketing revenue – over time | 297 | – |
| Total revenue | 180,588 | 199,660 |

## Note 5. Expenses

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Profit before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 208 | 232 |
| Buildings right-of-use assets | 483 | 493 |
| Total depreciation | 691 | 725 |
| *Amortisation* | | |
| Website | 1,443 | 1,118 |
| Patents and trademarks | 12 | 11 |
| Product development | 2 | 2 |
| Total amortisation | 1,457 | 1,131 |
| Total depreciation and amortisation | 2,148 | 1,856 |
| *Finance costs* | | |
| Interest and finance charges paid/payable on borrowings | 140 | 135 |
| Interest and finance charges paid/payable on lease liabilities | 46 | 65 |
| Finance costs expensed | 186 | 200 |
| *Other operating expenses* | | |
| Bank and merchant fees | 4,477 | 4,738 |
| Website, software, other IT costs | 4,456 | 4,004 |
| Net foreign exchange loss | 30 | 270 |
| Other | 4,376 | 3,741 |
| Total other operating expenses | 13,339 | 12,753 |
| *Employee benefits expense* | | |
| Salaries, wages and contractor payments | 17,160 | 17,407 |
| Share-based payments expense | (542) | 682 |
| Defined contribution superannuation expense | 1,315 | 1,300 |
| Annual and long service leave | (86) | (75) |
| Other employee benefits expenses | 757 | 730 |
| | 18,604 | 20,044 |

# Notes to the Financial Statements cont.

## Note 6. Income tax expense

| | Consolidated | |
|---|---|---|
| | 2023<br>$'000 | 2022<br>$'000 |
| *Income tax expense* | | |
| Current tax benefit | 1,539 | 514 |
| Deferred tax benefit/(expense) – origination and reversal of temporary differences | (647) | (1,444) |
| Aggregate income tax benefit/(expense) | 892 | (930) |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| (Loss)/profit before income tax expense | (1,451) | 3,307 |
| Tax at the statutory tax rate of 30% (2022: 30%) | 435 | (992) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenditure | (49) | (77) |
| Impact of ACA step downs | 286 | 286 |
| Share-based payments | 163 | (205) |
| Sundry items | 57 | 58 |
| Income tax benefit/(expense) | 892 | (930) |
| *Current tax receivable* | | |
| Current tax receivable | 1,795 | 2,295 |
| *Deferred tax assets/(liabilities) comprises tax losses and temporary differences attributable to:* | | |
| Employee benefits | 341 | 367 |
| Plant and equipment | (1,081) | (763) |
| Right-of-use asset | (37) | (54) |
| Right of return asset | (110) | – |
| Refund liability | 174 | – |
| Gift voucher liability | 274 | – |
| Capitalised fees | 160 | 293 |
| Accrued expenses | 181 | 67 |
| IPO Costs – blackhole expenditure[a] | 1,790 | 2,684 |
| Other items | 27 | 36 |
| Tax losses carried forward | 264 | – |
| Deferred tax asset | 1,983 | 2,630 |
| *Movements:* | | |
| Opening balance | 2,630 | 4,074 |
| Credited to profit or loss | (647) | (1,444) |
| Credited to equity | – | – |
| Closing balance | 1,983 | 2,630 |

a. Blackhole expenditure is capital expenditure that is not otherwise deductible and that relates to a business carried on for a taxable purpose. It is deductible under ITAA 1997 s40-880 over 5 years at the rate of 20%, provided the deduction is not denied by some other provision.

## Note 7. Current assets – inventories

| | Consolidated | |
|---|---|---|
| | 2023 $'000 | 2022 $'000 |
| Finished goods | 20,466 | 17,389 |
| Less provision for stock obsolescence | (100) | (100) |
| Stock in transit | 713 | 202 |
| | 21,079 | 17,491 |

## Note 8. Non-current assets – property, plant and equipment

| | Consolidated | |
|---|---|---|
| | 2023 $'000 | 2022 $'000 |
| Plant and equipment – at cost | 1,757 | 1,586 |
| Less: accumulated depreciation | (1,031) | (823) |
| | 726 | 763 |

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | $'000 |
|---|---|
| Balance at 1 July 2021 | 889 |
| Additions | 106 |
| Disposals | – |
| Depreciation expense | (232) |
| Balance at 30 June 2022 | 763 |
| Additions | 171 |
| Disposals | – |
| Depreciation expense | (208) |
| Balance at 30 June 2023 | 726 |

## Note 9. Non-current assets – right-of-use assets

| | Consolidated | |
|---|---|---|
| | 2023<br>$'000 | 2022<br>$'000 |
| Land and buildings – right-of-use | 2,324 | 2,334 |
| Less: accumulated depreciation | (1,822) | (1,342) |
| | 502 | 992 |

Lease remeasurements to right-of-use assets during the year were a loss of $7,000 (2022: $320,000 gain).

The consolidated entity leases land and buildings for its offices and warehouse under agreements of between one to three years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The consolidated entity leases office equipment under agreements of less than two years. These leases are of low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | $'000 |
|---|---|
| Balance at 1 July 2021 | 1,165 |
| Additions | 320 |
| Depreciation expense | (493) |
| Balance at 30 June 2022 | 992 |
| Lease remeasurements | (7) |
| Depreciation expense | (483) |
| Balance at 30 June 2023 | 502 |

## Note 10. Non-current assets – intangibles

| | Consolidated 2023 $'000 | Consolidated 2022 $'000 |
|---|---|---|
| Website and mobile app – at cost | 8,390 | 6,330 |
| Less: accumulated amortisation | (4,640) | (3,197) |
| | 3,750 | 3,133 |
| Patents and trademarks – at cost | 115 | 112 |
| Less: accumulated amortisation | (28) | (17) |
| | 87 | 95 |
| Product development – at cost | 21 | 18 |
| Less: accumulated amortisation | (6) | (4) |
| | 15 | 14 |
| | 3,852 | 3,242 |

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Website and mobile app $'000 | Patents and trademarks $'000 | Product development $'000 | Total $'000 |
|---|---|---|---|---|
| Balance at 1 July 2021 | 2,472 | 104 | 16 | 2,592 |
| Additions | 1,779 | 2 | – | 1,781 |
| Amortisation expense | (1,118) | (11) | (2) | (1,131) |
| Balance at 30 June 2022 | 3,133 | 95 | 14 | 3,242 |
| Additions | 2,060 | 4 | 3 | 2,067 |
| Amortisation expense | (1,443) | (12) | (2) | (1,457) |
| Balance at 30 June 2023 | 3,750 | 87 | 15 | 3,852 |

# Notes to the Financial Statements cont.

## Note 11. Current liabilities – trade and other payables

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Trade payables | 17,543 | 16,037 |
| Accrued expenses | 1,450 | 1,111 |
| Refund liability | 581 | – |
| Other payables | 1,083 | 1,334 |
| | 20,657 | 18,482 |

Refer to note 19 for further information on financial instruments.

## Note 12. Current liabilities – contract liability

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Gift voucher liability | 2,665 | 1,034 |
| Deferred revenue | 1,112 | – |
| | 3,777 | 1,034 |

## Note 13. Non-current liabilities – borrowings

Adore Beauty has a facility agreement with Commonwealth Bank of Australia (the Lender) for the provision of debt financing of $10 million, comprising a three-year multi-option revolving facility (Banking Facility). If capital expenditure is funded by the Banking Facility, the annual capital expenditure that may be funded under the Banking Facility is limited to $5 million in any financial year. Subject to customary carve-outs, the Banking Facility will be guaranteed by Adore Beauty and each other wholly-owned subsidiary of Adore Beauty required to meet the guarantor coverage test of 85% of consolidated EBITDA and total assets of the Group Companies. The Lender under the Banking Facility will have a general security over all of the assets of the Group Companies that are guarantors.

### Assets pledged as security

Financial facilities are secured by a guarantee by the Company and each of its wholly owned subsidiaries. The lender has general security over all of the assets of the Group Companies that are guarantors.

*Note 13. Non-current liabilities – borrowings continued*

## Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Total facilities | | |
| Multi-option revolving credit facility | 10,000 | 10,000 |
| | 10,000 | 10,000 |
| Used at the reporting date | | |
| Multi-option revolving credit facility | – | – |
| | – | – |
| Unused at the reporting date | | |
| Multi-option revolving credit facility | 10,000 | 10,000 |
| | 10,000 | 10,000 |

Refer to note 19 for further information on financial instruments.

# Note 14. Current liabilities – employee benefits

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Employee benefits | 911 | 1,061 |

## Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current since the consolidated entity does not have an unconditional right to defer settlement.

# Notes to the Financial Statements cont.

## Note 15. Equity – issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 2023 Shares | 2022 Shares | 2023 $'000 | 2022 $'000 |
| Ordinary shares – fully paid | 93,907,372 | 94,124,497 | 102,076 | 102,076 |

### Movements in ordinary share capital

| Details | Date | Shares | $'000 |
|---|---|---|---|
| Balance at beginning of the period | 30 June 2022 | 94,124,497 | 102,076 |
| Cancellation of forfeited employee shares | 5 June 2023 | (217,125) | – |
| Balance at end of period | 30 June 2023 | 93,907,372 | 102,076 |

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Cancellation of forfeited shares

During the period there was a cancellation of employee shares in accordance with the Company's Loan Funded Share Plan (Plan) of 217,125 shares. These shares did not vest and were forfeited in accordance with the terms Plan. No cash was outlaid for the forfeiture of the shares.

There is no current on-market share buy-back.

### Capital and going concern risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or Company was seen as value adding relative to the current Company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 30 June 2022 Annual Report.

## Note 16. Equity – reserves

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Corporate re-organisation reserve | (68,104) | (68,104) |
| Share-based payments reserve | 1,118 | 1,660 |
| Foreign currency reserve | (5) | (5) |
| | (66,991) | (66,449) |

### Corporate re-organisation reserve

The reserve represents the difference between the fair value of the consideration paid and the book value of assets and liabilities acquired in a business combination.

### Share-based payments reserve

The reserve is used to recognise share-based payments accrued as part of employee remuneration, including management equity plan shares that have vested but not yet exercised.

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

### Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | **Share-based payments $'000** | **Foreign currency $'000** | **Corporate re-organisation $'000** | **Total $'000** |
|---|---|---|---|---|
| Balance at 1 July 2021 | 978 | (5) | (68,104) | (67,131) |
| Share-based payment transactions | 682 | – | – | 682 |
| Balance at 30 June 2022 | 1,660 | (5) | (68,104) | (66,449) |
| Share-based payment transactions | (542) | – | – | (542) |
| **Balance at 30 June 2023** | **1,118** | **(5)** | **(68,104)** | **(66,991)** |

## Note 17. Equity – retained earnings

| | Consolidated | |
|---|---|---|
| | 2023 $'000 | 2022 $'000 |
| (Accumulated losses)/retained earnings at the beginning of the financial year | 1,691 | (686) |
| (Loss)/profit after income tax expense for the year | (559) | 2,377 |
| **Retained earnings at the end of the financial year** | **1,132** | **1,691** |

## Note 18. Equity – dividends

No dividend has been declared during or since the end of the financial year.

### Franking credits

| | Consolidated | |
|---|---|---|
| | 2023 $'000 | 2022 $'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 2,747 | 4,743 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

## Note 19. Financial instruments

### Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The consolidated entity is not exposed to any significant foreign currency risk.

## *Note 19. Financial instruments continued*

### Price risk

The consolidated entity is not exposed to any significant price risk.

### Interest rate risk

The consolidated entity is not exposed to any significant interest rate risk.

## Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

## Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### Financing arrangements

Unused borrowing facilities at the reporting date:

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| Multi-option revolving credit facility | 10,000 | 10,000 |

Subject to the continuance of satisfactory credit ratings, the multi-option revolving credit facility may be drawn at any time and is subject to annual review by the bank.

## Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

## Note 19. Financial instruments continued

| Consolidated – 2023 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| Trade and other payables | – | 20,076 | – | – | – | 20,076 |
| Refund liability | | 581 | – | – | – | 581 |
| Lease liabilities | 5% | 482 | 142 | – | – | 624 |
| Total | | 21,139 | 142 | – | – | 21,281 |

| Consolidated – 2022 | Weighted average interest rate % | 1 year or less $'000 | Between 1 and 2 years $'000 | Between 2 and 5 years $'000 | Over 5 years $'000 | Remaining contractual maturities $'000 |
|---|---|---|---|---|---|---|
| Trade and other payables | – | 18,482 | – | – | – | 18,482 |
| Lease liabilities | 5% | 548 | 482 | 142 | – | 1,172 |
| Total | | 19,030 | 482 | 142 | – | 19,654 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

### Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 20. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|---|---|---|
| | 2023 $ | 2022 $ |
| Short-term employee benefits | 1,841,984 | 1,631,086 |
| Post-employment benefits | 131,414 | 120,832 |
| Long-term benefits | (4,181) | 8,885 |
| Share-based payments | (580,994) | 682,382 |
| | 1,388,223 | 2,443,185 |

## Note 21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the Company, its network firms and unrelated firms:

| | Consolidated | |
|---|---|---|
| | 2023<br>$ | 2022<br>$ |
| *Audit services – Grant Thornton Audit Pty Ltd* | | |
| Audit or review of the financial statements | 155,000 | 127,000 |
| *Other services – Grant Thornton Australia Limited* | | |
| Tax advisory services | 53,000 | 8,000 |
| Other advisory services | 24,000 | – |
| | 232,000 | 135,000 |

## Note 22. Contingent liabilities

The consolidated entity has no contingent liabilities as at 30 June 2023 (2022: $nil).

## Note 23. Commitments

There were no material capital commitments at reporting date that were not recognised as liabilities.

## Note 24. Related party transactions

### Parent entity

Adore Beauty Group Limited is the parent entity.

### Subsidiaries

Interests in subsidiaries are set out in note 26.

### Key management personnel

Disclosures relating to key management personnel are set out in note 20 and the remuneration report included in the directors' report.

### Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | |
|---|---|---|
| | 2023<br>$ | 2022<br>$ |
| Payment for goods and services: | | |
| Purchase of goods from director related entities | 32,196 | 25,092 |

# Notes to the Financial Statements cont.

### *Note 24. Related party transactions continued*

## Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | Consolidated | |
|---|---|---|
| | **2023 $** | **2022 $** |
| Current payables: | | |
| Trade payables to director related entities | 5,395 | 5,170 |

## Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

## Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

# Note 25. Parent entity information

Set out below is the supplementary information about the parent entity.

## Statement of profit or loss and other comprehensive income

| | Parent | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| (Loss) after income tax | (1,097) | (1,986) |
| Total comprehensive loss | (1,097) | (1,986) |

## *Note 25. Parent entity information continued*

## Statement of financial position

| | Parent | |
|---|---|---|
| | 2023 $'000 | 2022 $'000 |
| Total current assets | 2,076 | 2,538 |
| Total assets | 95,080 | 96,760 |
| Total current liabilities | 28 | 69 |
| Total liabilities | 1,684 | 1,726 |
| Equity | | |
| Issued capital | 102,076 | 102,076 |
| Reserves | 1,118 | 1,660 |
| (Accumulated losses) | (9,798) | (8,702) |
| Total equity | 93,396 | 95,034 |

## Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

i. The parent entity has entered into a cross deed of guarantee with the subsidiaries listed in note 26.

ii. The parent entity has provided a guarantee in respect of a facility agreement with Commonwealth Bank of Australia (the Lender) for the provision of debt financing of $10 million. Refer to note 13 for further information in respect of the facility.

## Capital commitments — Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

## Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

# Notes to the Financial Statements cont.

## Note 26. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

| | | Ownership interest | |
|---|---|---|---|
| **Name** | **Principal place of business/ Country of incorporation** | **2023 %** | **2022 %** |
| Tate Midco Pty Ltd | Australia | 100.00% | 100.00% |
| Tate Bidco Pty Ltd | Australia | 100.00% | 100.00% |
| Adore Beauty Pty Ltd | Australia | 100.00% | 100.00% |
| Northside Brands Pty Ltd | Australia | 100.00% | 100.00% |
| Jakat Pte Ltd | Singapore | 100.00% | 100.00% |

## Note 27. Events after the reporting period

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## Note 28. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated | |
|---|---|---|
| | **2023 $'000** | **2022 $'000** |
| (Loss)/profit after income tax expense for the year | (559) | 2,377 |
| Adjustments for: | | |
| Depreciation and amortisation | 2,148 | 1,856 |
| Share-based payments | (542) | 682 |
| Interest expense reclassified to financing activities | 46 | 65 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | (1,463) | (390) |
| Increase in inventories | (3,588) | (2,547) |
| Increase in current tax receivable | 458 | (1,295) |
| Decrease/(increase) in deferred tax assets | 647 | 1,444 |
| Decrease/(increase) in other current assets | (1,159) | 1,063 |
| Increase in trade and other payables | 4,918 | 31 |
| (Decrease)/increase in employee benefits | (86) | (76) |
| Net cash from operating activities | 820 | 3,210 |

## Note 29. Changes in liabilities arising from financing activities

| Consolidated | Bank loans $'000 | Lease Liability $'000 | Total $'000 |
|---|---|---|---|
| Balance at 1 July 2021 | – | 1,346 | 1,346 |
| Net cash used in financing activities | – | (494) | (494) |
| Lease remeasurements | – | 320 | 320 |
| Balance at 30 June 2022 | – | 1,172 | 1,172 |
| Net cash used in financing activities | – | (541) | (541) |
| Lease remeasurements | – | (7) | (7) |
| Balance at 30 June 2023 | – | 624 | 624 |

## Note 30. Earnings per share

| | Consolidated | |
|---|---|---|
| | 2023 $ | 2022 $ |
| (Loss)/profit after income tax attributable to the owners of Adore Beauty Group Limited | (559,000) | 2,377,000 |

| | Number | Number |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | 93,907,372 | 94,124,497 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | – | 605,000 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 93,907,372 | 94,729,497 |

## Note 31. Share-based payments

### a. Management Equity Plan

#### i. Details of the Management Equity Plan of the Company

The Company previously established an equity incentive plan under which key personnel received ordinary shares as part of their incentive arrangements (Management Equity Plan). Equity issued under the Management Equity Plan will be dealt with as follows to ensure that participants continue to be motivated to achieve sustained growth for shareholders following listing on the Australian Stock Exchange (Listing). Key personnel were entitled to convert their existing management shares into ordinary shares immediately prior to the Company Listing. The existing management shares are loan backed shares pursuant to which the Company has loaned participants monies to fund part or all of the purchase of management shares under a Management Equity Plan. The ordinary shares issued on conversion of the management shares (Loan Shares) will continue to be subject to loan repayment and may also be subject to vesting conditions and continued employment.

# Notes to the Financial Statements cont.

## *Note 31. Share-based payments continued*

A summary of the material terms and conditions of the Loan Shares is as follows:

- The loan attaching to Loan Shares is limited recourse and must be repaid out of any proceeds from the sale of the Loan Shares.
- The Loan Shares are subject to the Company's Securities Trading Policy and to escrow arrangements as part of the Listing.

### ii. Management Equity Plan shares issued during the period

During the period, the Company granted nil Loan Shares to eligible personnel.

### iii. Movements in Management Equity Plan Shares during the period

The following reconciles the management equity plan shares outstanding at the beginning and end of the period.

| | Year ended 30/6/23 No. | Year ended 30/6/22 No. |
|---|---|---|
| Balance at the beginning of the period | 2,643,820 | 2,643,820 |
| Granted during the year | – | – |
| Cancellation of forfeited shares during the year | (217,125) | |
| **Balance at the end of the period** | **2,426,695** | **2,643,820** |

## b. Long-term Incentive Plan

### i. Details of the Long-Term Incentive Plans of the Company

The Company has established a long-term incentive plan (LTIP) to assist in the motivation, retention and reward of eligible employees. The LTIP is designed to align the interests of employees with the interests of Shareholders by providing an opportunity for employees to receive an equity interest in the Company. The LTIP provides flexibility for the Company to grant performance rights to acquire shares, subject to the terms of individual offers.

| Plan | Granted (Awards) | Grant Date | Fair Value at Grant | Vesting Date |
|---|---|---|---|---|
| **CEO Options** | | | | |
| Tranche 1 | 100,000 | 27/01/2023 | $0.49 | 10/07/2023 |
| Tranche 2 | 40,000 | 27/01/2023 | $0.50 | 9/10/2023 |
| Tranche 3 | 40,000 | 27/01/2023 | $0.50 | 9/01/2024 |
| Tranche 4 | 40,000 | 27/01/2023 | $0.51 | 9/04/2024 |
| Tranche 5 | 40,000 | 27/01/2023 | $0.52 | 9/07/2024 |
| Tranche 6 | 40,000 | 27/01/2023 | $0.52 | 9/10/2024 |
| Tranche 7 | 40,000 | 27/01/2023 | $0.53 | 9/01/2025 |
| Tranche 8 | 40,000 | 27/01/2023 | $0.54 | 9/04/2025 |
| Tranche 9 | 40,000 | 27/01/2023 | $0.54 | 9/07/2025 |
| Tranche 10 | 40,000 | 27/01/2023 | $0.55 | 9/10/2025 |
| Tranche 11 | 40,000 | 27/01/2023 | $0.56 | 9/04/2026 |

## *Note 31. Share-based payments continued*

| Plan | Granted (Awards) | Grant Date | Fair Value at Grant | Vesting Date |
|---|---|---|---|---|
| **CFO Options** | | | | |
| Options | 50,000 | 06/10/2020 | $3.52 | 30/06/2026 |
| Performance rights | 41,512 | 15/11/2022 | 1.64 | 30/06/2025 |
| **CEO Performance Rights** | | | | |
| Tranche 1[1] | 350,000 | 27/01/2023 | $0.58 | |
| Tranche 2[2] | 500,000 | 27/01/2023 | $0.29 | |
| Tranche 3[3] | 650,000 | 27/01/2023 | $0.17 | |
| **2023 Performance Rights** | | | | |
| Performance Rights | 109,402 | 15/11/2022 | $1.64 | 30/06/2025 |

1. Tranche 1 will vest if the volume weighted average price of Adore Beauty shares for any consecutive 60 day period following the Grant Date is $2.50 or higher.
2. Tranche 2 will vest if the volume weighted average price of Adore Beauty shares for any consecutive 60 day period following the Grant Date is $4.75 or higher.
3. Tranche 3 will vest if the volume weighted average price of Adore Beauty shares for any consecutive 60 day period following the Grant Date is $6.75 or higher.

### ii. Long-Term Incentive Plan options or performance rights issued during the period:

There were 1,650,914 performance rights issued during the period.

### iii. Share options exercised during the year

There were no share options exercised during the period year or the prior corresponding period.

### iv. Movements in share options and performance rights during the period

The following reconciles the share options and performance rights outstanding at the beginning and end of the period.

| | Year ended 30/6/23 | Year ended 30/6/23 | Year ended 30/6/22 | Year ended 30/6/22 |
|---|---|---|---|---|
| | Number of Options/Rights | Weighted average exercise price | Number of Options/rights | Weighted Average Exercise Price |
| Balance at the beginning of the year | 605,000 | $6.75 | 605,000 | $6.75 |
| Options granted during the year | 500,000 | $1.53 | – | – |
| Performance rights granted during the year | 1,650,914 | Nil | | |
| Forfeited during the year | (555,000) | $6.75 | – | – |
| **Balance at the end of the year** | **2,155,914** | **$2.00** | **605,000** | **$6.75** |

# Notes to the Financial Statements cont.

## *Note 31. Share-based payments continued*

### v. The following share-based payment options and performance rights were in existence at the end of the current period.

| Option series | Number | Grant date | Vesting date | Expiry date | Exercise price | Fair value at grant date |
|---|---|---|---|---|---|---|
| Performance rights[i] | 150,914 | 15/11/2022 | 31/08/2025 | 30/09/2027 | Nil | $1.64 |
| Performance rights[ii] | 1,500,000 | 27/01/2023 | | 27/11/2026 | Nil | |
| New options[iii] | 500,000 | 27/01/2023 | 27/01/2033 | 27/01/2033 | $1.53 | $0.52 |
| Options[iv] | 50,000 | 06/10/2020 | 30/06/2024 | 30/06/2026 | $6.75 | $3.52 |

No options have vested to date.

i. Performance rights vest on 31 August 2025 subject to the participant's continued employment and the achievement of below equally weighted measures over the performance period (1 July 2022 to 30 June 2025):

- Market measure – relative TSR (50% weighting):

The Company's TSR over the performance period will be assessed against selected companies in retail and ecommerce (TSR Peer Group) at 30 June 2025 to assess performance.

The proportion of performance shares that will vest will be determined by calculating the percentile ranking of the Company's TSR performance relative to the TSR performance of the TSR Peer Group in line with the following vesting schedule:

– Below 50th %le – nil vesting
– At 50th %le – 50% vesting
– Between 50th and 75th %le, pro-rata straight line vesting will occur
– 75th %le or above – full (100%) vesting

- Non-market measure – CAGR of EBITDA (50% weighting):

If the EBITDA margin hurdle (as defined in the Company's long term plan) has been achieved at the end of the performance period, revenue growth targets will be tested.

The proportion of performance shares that will vest will be determined by the revenue CAGR targets in line with the following vesting schedule:

– Less than target revenue CAGR – nil vesting
– At target revenue CAGR – 50% vesting
– Between target and stretch, pro-rata straight line vesting will occur
– At or above stretch revenue CAGR – full (100%) vesting

## *Note 31. Share-based payments continued*

ii. Performance Rights awarded to the CEO upon commencement have been valued using the Monte Carlo simulation approach and will vest, subject to participant's continued employment and to the Company's share price over the performance period (27 January 2023 to 27 November 2026):

- Tranche 1 – 350,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $2.50 or higher. Fair value at grant date of $0.58.
- Tranche 2 – 500,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $4.75 or higher. Fair value at grant date of $0.29.
- Tranche 3 – 650,000 Performance Rights that vest if the VWAP of Adore Beauty shares for any consecutive 60 day period following the Grant Date reaches $6.75 or higher. Fair value at grant date of $0.17.
- If not vested prior, these performance rights lapse 27 November 2026.

iii. Fair value of options based on Black-Scholes pricing model. Options vest in tranches described at note 31(b)(i) subject to the participant's continued employment.

iv. Options vest subject to the participant's continued employment over the performance period (6 October 2020 to 30 June 2024).

# Note 32. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each Company guarantees the debts of the others:

Adore Beauty Group Ltd

Adore Beauty Pty Ltd

Tate Midco Pty Ltd

Tate Bidco Pty Ltd

Northside Brands Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument.

# Notes to the Financial Statements cont.

## *Note 32. Deed of cross guarantee continued*

As at 30 June 2023, the results of the 'Closed Group' are as follows:

| **Statement of profit or loss and other comprehensive income** | **2023 $'000** |
|---|---|
| Revenue | 180,588 |
| Cost of sales | (121,328) |
| Other income | 251 |
| Advertising and marketing expense | (26,685) |
| Employee benefits expense | (18,630) |
| Depreciation and amortisation expense | (2,148) |
| Finance costs | (186) |
| Other operating expenses | (13,309) |
| **Loss before income tax benefit** | (1,447) |
| Income tax benefit | 892 |
| **Loss after income tax benefit** | (555) |
| **Other comprehensive income** | |
| Other comprehensive income for the year, net of tax | – |
| **Total comprehensive loss for the year** | (555) |
| **Equity – retained profits** | |
| Accumulated losses at the beginning of the financial year | (1,702) |
| Loss after income tax expense | 555 |
| Accumulated losses at the end of the financial year | (1,147) |

## *Note 32. Deed of cross guarantee continued*

| Statement of financial position | 2023 $'000 |
|---|---|
| **Current assets** | |
| Cash and cash equivalents | 27,663 |
| Trade and other receivables | 2,512 |
| Current tax receivable | 1,795 |
| Inventories | 21,079 |
| Other current assets | 2,201 |
| | 55,250 |
| **Non-current assets** | |
| Property, plant and equipment | 726 |
| Right-of-use assets | 502 |
| Intangibles | 3,852 |
| Deferred tax | 1,983 |
| Intercompany receivables | 60 |
| Investment in subsidiaries | 58 |
| | 7,181 |
| **Total assets** | 62,431 |
| **Current liabilities** | |
| Trade and other payables | 20,656 |
| Contract liabilities | 3,777 |
| Lease liabilities | 482 |
| Employee benefits | 911 |
| | 25,826 |
| **Non-current liabilities** | |
| Lease liabilities | 142 |
| Employee benefits | 225 |
| | 367 |
| **Total liabilities** | 26,193 |
| **Net assets** | 36,238 |
| **Equity** | |
| Issued capital | 102,076 |
| Reserves | (66,985) |
| Retained profits/(Accumulated losses) | 1,147 |
| **Total equity** | 36,238 |

# Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2023 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

**Marina Go**
Chair

23 August 2023

# Independent Auditor's Report

GrantThornton

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## Independent Auditor's Report

### To the Members of Adore Beauty Group Limited

#### Report on the audit of the financial report

**Opinion**

We have audited the financial report of Adore Beauty Group Limited (the Company) and its subsidiaries (the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Consolidated Entity is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2023 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Consolidated Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditor's Report cont.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Revenue recognition – Note 1 and Note 4** | |
| There is a presumed risk that revenue may be misstated due to improper revenue recognition in accordance with ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.<br><br>The Consolidated Entity recognises revenue at an amount that reflects the consideration to which they expect to be entitled in exchange for transferring goods to a customer. Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery and the performance obligation is satisfied in accordance with AASB 15 *Revenue from Contracts with Customers*.<br><br>Given the Consolidated Entity recognises revenue when they make a delivery to customers, they must assess all orders shipped but not yet delivered at the end of the reporting period for correct revenue recognition.<br><br>Due to the management judgement involved in this assessment and the daily volume of online transactions, revenue recognition is a key audit matter. | Our procedures included, amongst others:<br><br>• Obtaining a detailed understanding of the underlying processes for revenue recognition, through discussion with individuals across the organisation and review of relevant documentation;<br><br>• Using data analytics to risk profile revenue transactions throughout the year, identifying and testing transactions which are higher risk;<br><br>• Testing a sample of revenue transactions throughout the year to evaluate the occurrence and accuracy of the amounts recorded during the year;<br><br>• Validating management's assessment of contract liabilities at year-end;<br><br>• For year-end revenue specifically, assessing management's estimates (including input data and assumptions) on cut-off of revenue and developing an independent auditor's estimate, to assess whether management's estimates made are reasonable;<br><br>• Reviewing management's assessment of the refund liability and right-of-return asset based on customer terms and percentage of actual returns during the year; and<br><br>• Assessing whether the disclosures in the financial statements, including critical judgements and estimates, are appropriate. |

### Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Consolidated Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf.This description forms part of our auditor's report.

### Report on the remuneration report

#### Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Adore Beauty Group Limited, for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Cgangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 23 August 2023

# Shareholder Information

## Voting Rights

**Ordinary shares:** On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote for each fully paid share held by the member.

There are currently 93,907,372 Ordinary Fully Paid Shares on issue.

Holders of performance rights and options have no voting rights.

**The below information is current as at 16 October 2023.**

## Distribution of Equity Securities

Analysis of number of equity security holders (fully paid ordinary shares) by size of holding:

| Range | Number of holders | % of holders | Number of securities | % of securities |
|---|---|---|---|---|
| 1 to 1,000 | 5,554 | 70.43 | 1,989,385 | 2.12 |
| 1,001 to 5,000 | 1,733 | 21.98 | 3,973,534 | 4.23 |
| 5,001 to 10,000 | 318 | 4.03 | 2,418,828 | 2.58 |
| 10,001 to 100,000 | 255 | 3.23 | 6,178,863 | 6.58 |
| 100,001 and over | 26 | 0.33 | 79,346,762 | 84.49 |
| **Total** | **7,886** | **100.00** | **93,907,372** | **100.00** |
| Holders holding less than a marketable parcel of shares* | **4,141** | **53.73** | **964,253** | 1.03 |

* marketable parcel of shares calculated based on closing market price on 16 October 2023 of $0.96.

## Restricted Securities and Voluntary Escrow

There are no restricted securities (as defined by the ASX Listing Rules) on issue and no securities are currently subject to voluntary escrow arrangements.

## On-market Buy Back

There is no current on-market buy back.

## Total of Quoted and Restricted Securities

| | |
|---|---|
| Fully paid ordinary shares (quoted securities) | **93,907,372** |
| **Total number of shares** | **93,907,372** |

## Unquoted Securities

| Type of security | Number of holders | Number of securities |
|---|---|---|
| Options | 2 | 550,000 |
| Performance Rights | 11 | 1,646,103 |

## Option Shares

| Range | Number of holders | % of holders | Number of securities | % of securities |
|---|---|---|---|---|
| 1 to 1,000 | 0 | 0 | 0 | 0 |
| 1,001 to 5,000 | 0 | 0 | 0 | 0 |
| 5,001 to 10,000 | 0 | 0 | 0 | 0 |
| 10,001 to 100,000 | 1 | 50 | 50,000 | 9.09 |
| 100,001 and over | 1 | 50 | 500,000 | 90.91 |
| **Total** | **2** | **100.00** | **550,000** | **100.00** |

## Performance Rights

| Range | Number of holders | % of holders | Number of securities | % of securities |
|---|---|---|---|---|
| 1 to 1,000 | 0 | 0 | 0 | 0 |
| 1,001 to 5,000 | 1 | 9.1 | 4,402 | 0.3 |
| 5,001 to 10,000 | 5 | 45.4 | 28,521 | 1.73 |
| 10,001 to 100,000 | 4 | 36.4 | 113,180 | 6.9 |
| 100,001 and over | 1 | 9.1 | 1,500,000 | 91.1 |
| **Total** | **11** | **100.00** | **1,646,103** | **100.00** |

# Shareholder Information cont.

## Twenty Largest Quoted Equity Security Holders

| No. | Name | Number of shares | % of issued equity |
|---|---|---|---|
| 1 | QPE GROWTH, LP | 30,600,001 | **32.59** |
| 2 | KATY ANN MORRIS | 10,200,000 | **10.86** |
| 2 | JAMES ALEXANDER HEIGHT | 10,200,000 | **10.86** |
| 3 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 6,454,110 | **6.87** |
| 4 | CITICORP NOMINEES PTY LIMITED | 6,293,574 | **6.70** |
| 5 | WARBONT NOMINEES PTY LTD | 3,430,852 | **3.65** |
| 6 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 2,718,226 | **2.89** |
| 7 | BNP PARIBAS NOMINEES PTY LTD | 2,260,796 | **2.41** |
| 8 | RYANBRIDGE PTY LTD | 1,370,443 | **1.46** |
| 9 | MRS SARAH MARY MENZIES MULLEN | 823,192 | **0.88** |
| 10 | TENNEALLE O'SHANNESSY | 651,377 | **0.69** |
| 11 | DANIEL ANDREW FERGUSON | 619,452 | **0.66** |
| 12 | GARETH WILLIAMS | 597,427 | **0.64** |
| 13 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 585,386 | **0.62** |
| 14 | BRISPOT NOMINEES PTY LTD | 498,692 | **0.53** |
| 15 | SARWELL PTY LTD | 315,000 | **0.34** |
| 16 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 274,750 | **0.29** |
| 17 | FINCLEAR PTY LTD | 242,045 | **0.26** |
| 18 | HAJA HOLDINGS PTY LTD ACN 642 738 172 | 203,740 | **0.22** |
| 19 | KATY ANN MORRIS | 200,000 | **0.21** |
| 19 | JAMES ALEXANDER HEIGHT | 200,000 | **0.21** |
| 20 | CHAMBERS INVESTMENTS NO1 PTY LTD | 147,545 | **0.16** |
| | **Total** | **78,886,608** | **84.00** |
| | **Balance of register** | **15,020,764** | **16.00** |
| | **Grand total** | **93,907,372** | **100.00** |

## Substantial Holders

| Shareholder | Date of notice | Number of shares | % of issued equity[1] |
| --- | --- | --- | --- |
| QPE Growth, LP | 27/10/2020 | 30,600,001 | 32.51 |
| Kate Morris | 27/10/2020 | 20,400,000 | 21.67 |
| James Height | 27/10/2020 | 20,400,000 | 21.67 |
| Woodson Funds | 23/08/2022 | 6,190,458 | 6.58 |
| Spheria Asset Management Pty Ltd | 16/10/2023 | 4,762,563 | 5.07 |

1. Percentage of issued equity held as disclosed in the substantial holding notices provided to the Company.

## Corporate Governance Statement

Adore Beauty is committed to achieving and demonstrating the highest standards of corporate governance to protect and enhance stakeholder interests.

Adore Beauty has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) ('Recommendations') to the extent appropriate to the size and nature of its operations.

Adore Beauty's Corporate Governance Statement, which sets out further details of the corporate governance practices and identifies and explains any Recommendations that have not been followed can be found at the Adore Beauty website (https://www.adorebeautygroup.com.au).

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# Corporate Directory

| | |
|---|---|
| **Directors** | Marina Go – Non-Executive Chair<br>Kate Morris –Executive Director (transitioned to Non-Executive Director from 1 July 2023)<br>James Height –Executive Director (transitioned to Non-Executive Director from 1 July 2023)<br>Sandra Birkensleigh – Non-Executive Director<br>Lisa Hennessy – Non-Executive Director |
| **Company Secretary** | Stephanie Carroll<br>Melissa Jones |
| **Registered office** | Level 1<br>421 High Street<br>Northcote VIC 3070 |
| **Principal place of business** | Level 1<br>421 High Street<br>Northcote VIC 3070 |
| **Share register** | Link Market Services<br>Level 12<br>680 George Street<br>Sydney NSW 2000<br>Phone: 1300 554 474 |
| **Auditor** | Grant Thornton Audit Pty Ltd<br>Collins Square, Tower 5<br>727 Collins Street<br>Melbourne VIC 3008 |
| **Solicitors** | Gilbert + Tobin<br>Level 35<br>International Towers Sydney<br>200 Barangaroo Avenue<br>Sydney NSW 2000 |
| **Stock exchange listing** | Adore Beauty Group Limited shares are listed on the Australian Securities Exchange (ASX code: ABY) |
| **Website** | www.adorebeauty.com.au |

ADOREBEAUTY