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ADOREBEAUTY PROSPECTUS

Initial Public Offering of Shares

Adore Beauty Group Limited
ACN 636 138 988

Joint Lead Managers

Morgan Stanley  UBS

Financial Adviser

 KPMG

Important Notices

OFFER

The Offer contained in this Prospectus is an invitation for you to apply for fully paid ordinary shares (**Shares**) in Adore Beauty Group Limited (ACN 636 138 988) (**Adore Beauty** or **Company**). This Prospectus is issued by the Company and Adore Beauty SaleCo Limited (ACN 643 792 698) (**SaleCo**). See Section 7 for further information on the Offer, including as to details of the securities that will be issued and transferred under this Prospectus.

LODGEMENT AND LISTING

This Prospectus is dated 7 October 2020 and was lodged with ASIC on that date (**Prospectus Date**).

The Company will apply to the ASX within seven days after the Prospectus Date for admission of the Company to the Official List and quotation of the Shares on the ASX (**Listing**).

Neither ASIC nor the ASX takes any responsibility for the content of this Prospectus or for the merits of the investment to which this Prospectus relates.

EXPIRY DATE

No Shares will be issued or transferred on the basis of this Prospectus after the expiry date, being 13 months after the Prospectus Date.

NOTE TO APPLICANTS

The information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation or particular needs (including financial and tax issues) of any prospective investor.

It is important that you read this Prospectus carefully and in its entirety before deciding whether to invest in the Company. In particular, in considering the prospects of the Company, you should consider the risk factors that could affect the performance of the Company. You should carefully consider these risks in light of your investment objectives, financial situation and particular needs (including financial and tax issues) and seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest in the Shares. Some of the key risk factors that should be considered by prospective investors are set out in Section 5. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

You should also consider the assumptions underlying the Forecast Financial Information set out in Section 4 and the risk factors set out in Section 5 that could affect the Company's business, financial condition and results of operations.

No person named in this Prospectus, nor any other person, guarantees the performance of the Company, the repayment of capital by the Company or the payment of a return on the Shares.

EXPOSURE PERIOD

The Corporations Act prohibits the Company from processing applications to subscribe for, or acquire, Shares offered under this Prospectus (**Applications**) in the seven day period after lodgement of this Prospectus with ASIC (**Exposure Period**). This Exposure Period may be extended by ASIC by up to a further seven days.

The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of

deficiencies in this Prospectus, in which case any Application may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period. No preference will be conferred on any Applications received during the Exposure Period.

PHOTOGRAPHS AND DIAGRAMS

Photographs and diagrams used in this Prospectus that do not have descriptions are for illustration only and should not be interpreted to mean that any person shown in them endorses this Prospectus or its contents or that the assets shown in them are owned by the Company. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale or accurately represent the technical aspects of the products.

DISCLAIMER AND FORWARD-LOOKING STATEMENTS

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company, SaleCo, the Directors, the SaleCo Directors, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus when deciding whether to invest in Shares. Except as required by law, and only to the extent so required, neither the Company nor any other person warrants or guarantees the future performance of the Company, or any return on any investment made pursuant to this Prospectus.

This Prospectus contains forward-looking statements which are statements that may be identified by words such as "may", "will", "would", "should", "could", "believes", "estimates", "expects", "intends", "plans", "anticipates", "predicts", "outlook", "forecasts", "guidance" and other similar words that involve risks and uncertainties. The Forecast Financial Information is an example of forward-looking statements. These statements are based on an assessment of present economic and operating conditions and on a number of best estimate assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place (including the key assumptions set out in Section 4.7).

No person who has made any forward-looking statements in this Prospectus (including the Company) has any intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, other than to the extent required by law.

Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the directors and management of the Company and SaleCo. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, Sections 4 and 5, and other information in this Prospectus. The Company and SaleCo cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. As set out in Section 7.11.3, it is expected that the Shares will be quoted on the ASX initially on a deferred settlement basis. The Company, SaleCo, the Company's

service provider, Link Market Services Limited (**Share Registry**) and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who trade shares before receiving their holding statement.

Morgan Stanley Securities Australia Limited (**Morgan Stanley**) and UBS AG, Australia Branch (**UBS**) have acted as Joint Lead Managers to the Offer and have not authorised, permitted or caused the issue or lodgement, submission, dispatch or provision of this Prospectus and there is no statement in this Prospectus which is based on any statement made by any Joint Lead Manager or by any of their respective affiliates or related bodies corporate (as defined in the Corporations Act) (**Related Bodies Corporate**), or any of their respective officers, directors, employees, partners, advisers or agents. To the maximum extent permitted by law, the Joint Lead Managers, their respective affiliates and Related Bodies Corporate, and any of their respective officers, directors, employees, partners, advisers or agents expressly disclaim all liabilities in respect of, make no representations regarding, and take no responsibility for, any part of this Prospectus other than references to their name and make no representation or warranty as to the currency, accuracy, reliability or completeness of this Prospectus.

STATEMENTS OF PAST PERFORMANCE

This Prospectus includes information regarding the past performance of the Company. Investors should be aware that past performance should not be relied upon as being indicative of future performance.

FINANCIAL INFORMATION PRESENTATION

All references to FY2018, FY2019 and FY2020 appearing in this Prospectus are to the financial years ended or ending 30 June 2018, 30 June 2019 and 30 June 2020 respectively, unless otherwise indicated. All references to 1H FY2018, 1H FY2019 and 1H FY2020 appearing in this Prospectus are to the half financial years ended 31 December 2018, 31 December 2019 and 31 December 2020 respectively, unless otherwise indicated.

All financial amounts contained in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums and components in tables, figures and diagrams contained in this Prospectus are due to rounding.

Section 4 sets out in detail the Financial Information referred to in this Prospectus. The basis of preparation of the Financial Information is set out in Section 4.2.

The Historical Financial Information has been prepared and presented in accordance with the recognition and measurement principles of Australian Accounting Standards (as adopted by the Australian Accounting Standards Board), which comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board.

This Prospectus includes Forecast Financial Information based on the best estimate assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

The Financial Information in this Prospectus should be read in conjunction with, and it is qualified by reference to, the information contained in Sections 4 and 5.

MARKET AND INDUSTRY INFORMATION

This Prospectus contains statistics, data and other information relating to markets, market sizes, market shares, market positions and other industry data pertaining to the Company's business and markets. Unless otherwise indicated, such information is based on a market study (**Independent Market Report**) that the Company commissioned from Frost & Sullivan, as well as the Company's analysis of such information. See Section 6.3.1.1 for further information relating to the Independent Market Report and Frost & Sullivan's engagement. In addition, the Company understands from Frost & Sullivan that the Independent Market Report includes or is otherwise based on information obtained from (i) various data collection agencies, industry associations, forums and institutes and private market analysts; and (ii) publicly available information, as well as primary interviews conducted with industry participants and secondary market research.

While the Independent Market Report provides that the views, opinions, forecasts and information contained in it are based on information reasonably believed by Frost & Sullivan in good faith to be reliable, Frost & Sullivan has not independently verified or audited the information or material obtained from third parties. In addition, the Company, SaleCo or the Joint Lead Managers have not independently verified, and cannot give any assurances as to the accuracy and completeness of the market and industry data contained in this Prospectus that has been extracted or derived from the Independent Market Report. Accordingly, the accuracy and completeness of such information is not guaranteed. In addition to the industry data, this Prospectus uses third-party data, estimates and projections. There is no assurance that any of the third-party data, estimates or projections contained in this Prospectus will be achieved. The Company has not independently verified such information. Estimates involve risks and uncertainties and are subject to change based on various factors, including those described in the risk factors set out in Section 5.

Investors should note that market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions.

OBTAINING A COPY OF THIS PROSPECTUS

This Prospectus is available in electronic form to Australian residents on the Company's offer website, <https://events.miraql.com/adorebeauty-offer>. The Offer constituted by this Prospectus in electronic form is available only to Australian residents accessing the website within Australia and is not available to persons in any other jurisdictions, including the United States.

A hard copy of the Prospectus is available free of charge during the Offer Period to any person in Australia by calling the Adore Beauty Offer Information Line on 1800 628 703 (toll free within Australia) or +61 1800 628 703 (outside Australia) between 8.30am and 5.30pm (Melbourne time), Monday to Friday.

Applications for Shares may only be made on the Application Form attached to, or accompanying, this Prospectus in its hard copy form, or in its soft copy form available online at <https://events.miraql.com/adorebeauty-offer>, together with an electronic copy of this Prospectus. By making an Application, you declare that you were given access to the Prospectus, together with an Application Form.

The Corporations Act prohibits any person from passing the Application Form on to another person unless it is attached to, or accompanied by, this Prospectus in its paper copy form or the complete and unaltered electronic version of this Prospectus.

NO COOLING-OFF RIGHTS

Cooling off rights do not apply to an investment in Shares pursuant to the Offer. This means that, in most circumstances, you cannot withdraw your Application once it has been accepted.

NO OFFERING WHERE ILLEGAL

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to register or qualify the Shares or the Offer, or to otherwise permit a public offering of the Shares in any jurisdiction outside Australia. The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and persons who come into possession of this Prospectus outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer to sell, or a solicitation of any offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any State of the United States, and may not be offered or sold, directly or indirectly, in the United States, or to or for the account or benefit of, a U.S. Person, except transactions exempt from or not subject to the registration requirements of the U.S. Securities Act and any other applicable U.S. securities laws. The Offer is not being extended to any investor outside Australia, other than to certain Institutional Investors as part of the Institutional Offer.

See Section 9.15 for more detail on selling restrictions that apply to the Offer and sale of Shares in jurisdictions outside Australia.

PRIVACY

By completing an Application Form, you are providing personal information to the Company and SaleCo through the Share Registry, which is contracted by the Company to manage Applications. The Company and SaleCo, and the Share Registry on their behalf, and their agents and service providers may collect, hold, disclose and use that personal information to process your Application, service your needs as a Shareholder, provide facilities and services that you request and carry out appropriate administration, and for other purposes related to your investment listed below.

If you do not provide the information requested in the Application Form, the Company, SaleCo and the Share Registry may not be able to process or accept your Application.

Once you become a Shareholder, the Corporations Act and Australian taxation legislation require information about you (including your name, address and details of the Shares you hold) to be included on the Share register. In accordance with the requirements of the Corporations Act, information on the Share register will be accessible by members of the public. The information must continue to be included on the Share register if you cease to be a Shareholder.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to their agents and service providers including those listed below or as otherwise authorised under the *Privacy Act 1988* (Cth):

- the Share Registry for ongoing administration of the Share register;
- the Joint Lead Managers to assess your Application;
- printers and other companies for the purposes of preparation and distribution of documents and for handling mail;

- market research companies for analysing the Company's shareholder base; and
- legal and accounting firms, auditors, management consultants and other advisers for administering, and advising on, the Shares and for associated actions.

The Company's agents and service providers may be located outside Australia where your personal information may not receive the same level of protection as that afforded under Australian law.

You may request access to your personal information held by or on behalf of the Company and SaleCo. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information.

You can request access to your personal information or obtain further information about the Company's privacy practices by contacting the Share Registry as follows:

Telephone: (outside Australia) 1800 628 703
(toll free within Australia) +61 1800 628 703

Address: Locked Bag A14, Sydney South NSW 1235

The Company aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Company or the Share Registry if any of the details you have provided change.

FINANCIAL SERVICES GUIDE

The provider of the Investigating Accountant's Report on the Financial Information is required to provide Australian retail clients with a Financial Services Guide in relation to that review under the Corporations Act. The Investigating Accountant's Report and accompanying Financial Services Guide is provided in Section 8.

INTELLECTUAL PROPERTY

This Prospectus may contain trademarks of third parties, which are the property of their respective owners. Third-party trademarks used in this Prospectus belong to the relevant owners and use is not intended to represent sponsorship, approval or association by or with us.

COMPANY WEBSITE

Any references to documents included on the Company's website are provided for convenience only, and none of the documents or other information on the Company's website, or any other website referred in this Prospectus, is incorporated in this Prospectus by reference.

DEFINED TERMS AND ABBREVIATIONS

Defined terms and abbreviations used in this Prospectus, unless specified otherwise, have the meaning given in the glossary in Section 10. Unless otherwise stated or implied, references to times in this Prospectus are to Melbourne time.

Unless otherwise stated or implied, references to dates or years are calendar year references.

QUESTIONS

If you have any questions in relation to the Offer, contact the Adore Beauty Offer Information Line on 1800 628 703 (toll free within Australia) or +61 1800 628 703 (outside Australia) between 8.30am and 5.30pm (Melbourne time), Monday to Friday.

This document is important and should be read in its entirety.

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Key Offer Information

Key Offer Dates

Important dates

Prospectus Date	Wednesday, 7 October 2020
Opening date of the Retail Offer	Wednesday, 14 October 2020
Closing date of the Retail Offer	Wednesday, 21 October 2020
ASX listing commences (conditional and deferred settlement trading)	Friday, 23 October 2020
Settlement of the Offer	Monday, 26 October 2020
Allotment of Shares	Tuesday, 27 October 2020
ASX trading commences on a normal settlement basis	Tuesday, 27 October 2020
Dispatch of holding statements (and any refund payments if applicable)	Thursday, 29 October 2020

Dates may change

This timetable is indicative only and may change without notice. Unless otherwise indicated, all times are stated in Australian Eastern Standard time. Adore Beauty, SaleCo and the Joint Lead Managers reserve the right to vary any and all of the above dates and times without notice including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend a closing date, or to accept late applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or applicants. Offers may be made and may be open for acceptances, under this Prospectus either generally or in particular cases, including until Completion or, subject to the Corporations Act, thereafter, at the discretion of the Directors.

If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act. Investors are encouraged to submit their applications as soon as possible after the Offer opens.

How to invest

Applications for Shares can only be made by completing and lodging an Application Form. Instructions on how to apply for Shares are set out in Section 7 and on the back of the Application Form.

Questions

Please call the Adore Beauty Offer Information Line on 1800 628 703 (within Australia) or +61 1800 628 703 (outside Australia) from 8:30am to 5:30pm (Melbourne time) Monday to Friday (excluding public holidays). If you are unclear in relation to any matter or are uncertain as to whether Adore Beauty is a suitable investment for you, you should seek advice from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest in Adore Beauty.

References to “we”, “us”, “our” and Adore Beauty

Where used in this Prospectus, the expressions “we”, “us”, “our” and “Adore Beauty” refer to Adore Beauty Group Limited and/or its subsidiaries as the context requires.

Key Offer Statistics¹

Offer Price	\$6.75 per Share
Total number of Shares to be available under the Offer	39.9 million
Total proceeds of the Offer	\$269.5 million
Total number of Shares on issue on Completion of the Offer	94.1 million
Number of Shares to be held by Existing Shareholders on Completion of the Offer²	54.2 million
Market capitalisation at the Offer Price³	\$635.3 million
Pro forma net cash (as of 30 June 2020)⁴	\$20.6 million
Enterprise value at the Offer Price⁵	\$614.8 million
Enterprise value/pro forma CY2020 forecast Revenue⁶	3.9x

Notes:

1. Dollar amounts presented in the key Offer statistics table are in Australian dollars. This table contains Forecast Financial Information and information derived from the Forecast Financial Information. The Forecast Financial Information is based on assumptions and accounting policies set out in Section 4 and Appendix A, and is subject to the key risks set out in Section 5. There is no guarantee that the forecasts will be achieved. Certain financial information in this Prospectus is described as pro forma for the reasons described in Section 4. Forecasts have been included in this Prospectus for CY2020.
2. Excluding any Shares acquired under the Offer.
3. Market capitalisation at the Offer Price is defined as the Offer Price multiplied by the total number of Shares on issue at Completion of the Offer.
4. Pro forma net cash represents cash and cash equivalents as at 30 June 2020, calculated on a pro forma basis assuming Completion of the Offer, less borrowings as at 30 June 2020.
5. Enterprise value at the Offer Price is defined as market capitalisation at the Offer Price, less pro forma net cash of \$20.6 million as at 30 June 2020.
6. Enterprise value/revenue multiple is calculated as the enterprise value at the Offer Price divided by pro forma forecast CY2020 revenue of \$158.2 million.

Chair's Letter

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to consider becoming a shareholder in Adore Beauty Group Limited (**Adore Beauty**).

Adore Beauty was co-founded in 2000 by Kate Morris and James Height as Australia's first beauty focused e-commerce website. Since then, it has become Australia's number one pureplay online beauty retailer,¹ home to over 230 global and domestic brands and 11,000 products – some of which are available exclusively on Adore Beauty's platform. In 2019, Quadrant Growth Fund invested in Adore Beauty alongside the co-founders.

Adore Beauty generates revenue through the sale of beauty and personal care products online. Adore Beauty has attracted and retained a large and active customer base, having grown over 278% over the past four years to over 590,000 Active Customers today. Adore Beauty's customer acquisition and retention capabilities are driven by its business model that creates a strong value proposition for both brands and customers through its integrated content, marketing and e-commerce offering. The Board believes that the Company's ability to engage with customers and its reputation as an online destination for beauty and personal care represents a sustainable source of competitive advantage, and expects this to drive continued growth in active customers and revenue. In FY20, the Company generated \$121.1 million of revenue.

Frost & Sullivan estimates sales of beauty and personal care products in Australia (both online and offline) reached \$10.9 billion in 2019. Frost & Sullivan estimate the online penetration rate of the beauty and personal care market in Australia is 7.3%, which lags international markets such as the United States and the United Kingdom, with estimated online penetration levels of 15.4% and 12.7% respectively. Adore Beauty believes online penetration of the beauty and personal care market in Australia will continue to increase, and that COVID-19 may accelerate the rate of online penetration going forward.

Adore Beauty is led by a highly experienced and well regarded management team and will continue to benefit from the passion and experience of the co-founders who will continue to remain active in the business as Executive Directors.

The Board and management team remain focused on continuing to grow the business. In addition to strengthening its competitive advantage by continuing to improve upon its core capabilities, Adore Beauty has a number of growth strategies in place, including the planned launch of its mobile application in late 2020 to further enhance customer engagement.

The purpose of the Offer and listing on the ASX is to allow Adore Beauty to provide funding and financial flexibility for general corporate purposes, including to support Adore Beauty's growth strategy and future growth opportunities and to enable the existing shareholders to partially monetise their investment.

The existing shareholders in Adore Beauty include Quadrant Growth Fund, the co-founders and management. Quadrant Growth Fund, the co-founders and management will sell part of their current stake and will hold approximately 32.5%, 21.7% and 3.4% of Shares at Completion, respectively.

Quadrant Growth Fund remains excited by the future prospects of Adore Beauty, and has entered into voluntary escrow agreements in relation to their Shares held at Completion for the period until the release date of the Company's financial results for FY21. Shares that continue to be held by the co-founders and management at Completion will also be held subject to escrow arrangements.

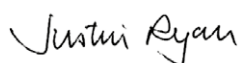
This Prospectus contains detailed information about the Offer, the industry in which Adore Beauty operates and Adore Beauty's historical and forecast position. An investment in Adore Beauty is subject to a range of risks, including the performance and reliability of Adore Beauty's websites, databases, its operating systems and internet; data security breaches; a declining penetration of online retail; changes in customer preferences; maintaining and enhancing Adore Beauty's customer and product offering; exclusivity of brands; and risks associated with operating in a competitive industry. For more information about the key risks associated with an investment in Adore Beauty refer to Section 5 of this Prospectus.

You should also note that there can be no guarantee that Adore Beauty will achieve its stated objectives or that any forward-looking statements or forecasts in the Prospectus will be realised or will otherwise eventuate.

I encourage you to read this Prospectus carefully and in its entirety before making an investment decision.

On behalf of my fellow Directors, I look forward to welcoming you as a shareholder of Adore Beauty.

Yours sincerely,



Justin Ryan

Chair

Adore Beauty Group Limited

1. Management estimates based on third party industry reports (2019, 2020), third party supplier data (2019), third party and internal customer data (2019, 2020), third party website traffic data (2020).

THE BOARD BELIEVES THAT THE COMPANY'S ABILITY TO ENGAGE WITH CUSTOMERS AND ITS REPUTATION AS AN ONLINE DESTINATION FOR BEAUTY AND PERSONAL CARE REPRESENTS A SUSTAINABLE SOURCE OF COMPETITIVE ADVANTAGE, AND EXPECTS THIS TO DRIVE CONTINUED GROWTH IN ACTIVE CUSTOMERS AND REVENUE.

— **Justin Ryan**
Chair



Co-Founder and Executive Director's Letter

Dear Investor,

Twenty years ago, my co-founder James Height and I created Adore Beauty in a garage in Melbourne. We couldn't have known what the business would become, but even then we had a clear purpose: to create an empowering beauty shopping experience that would make our customers feel confident and fabulous.

Starting with only a \$12,000 loan from family, we grew carefully and profitably for many years, slowly building trust with beauty brands and consumers. Earning this trust has enabled Adore Beauty to build a growing base of loyal and passionate customers, which has in turn attracted an unparalleled brand range within the Australian market.

We believe Adore Beauty's reinforcing business model has three key elements:

- **The best range** – We partner with brands to offer customers a unique range of products across prestige, professional, niche and masstige brands;
- **The best shopping experience** – Delivering an outstanding online transaction experience, with great service, speedy delivery, and free samples, with AI led personalisation and recommendations; and
- **Combining content and commerce** – Data-enriched customer engagement using education and entertainment, via our integrated e-commerce marketing platform.

Whether it is through our content hub BeautyIQ, our popular podcast or our social channels, we are proud to break away from airbrushed, unattainable beauty stereotypes, and present a real, authentic, and honest take on beauty. We believe that beauty is fundamentally an act of self-care, and we want our customers to feel comfortable to engage with the category on whatever level makes them comfortable and helps them to feel their best.

We are a proudly values-led company, and we believe these values are the building blocks of our innovative culture. I hope they are among the reasons that you would consider investing in the Company. The values we hold dear are:

- Working for each other: We all pitch in, share knowledge and offer help.
- Doing the right thing: We show fairness, honesty and respect to our co-workers, customers and suppliers. We live up to our promises and admit our mistakes.
- A positive approach: We look for the best in people and situations. Blame less, care more and respect each other's differences.
- Always growing: We challenge ourselves, embrace change, show courage, and consider mistakes an opportunity to learn.

Every single team member at Adore Beauty lives by our values, and it is so exciting to be able to use the Initial Public Offering to share the Company with them. They are all talented individuals, but as a team they are truly extraordinary and Adore Beauty's success has absolutely been driven by their passion, hard work, courage and tenacity.

In recent years, we have invested significantly in building out our executive team to drive Adore Beauty's continued growth. In particular, I would like to make special mention of Adore Beauty's CEO, Tennealle O'Shannessy. Tennealle brings with her more than 20 years of experience, most recently including 9 years with SEEK in strategic global roles. While James and I look forward to remaining active within the business, we believe Tennealle is the perfect person to lead the team during the next phase of growth for Adore Beauty.

I would like to sincerely thank each and every one of our customers, we would not be here today were it not for your support. Your constant and honest feedback continues to drive us to improve every part of our business: from curating our brand portfolio, to the way we help you discover new products which suit your needs, to the online experience our website creates, and the original beauty content we create every week.

I would also like to thank our brand partners for their ongoing support, and for believing in our vision. We love working closely with you and value what we have built together. We look forward to growing our businesses together over many more years to come.

As we have done for our first 20 years, we are focused on sustainable growth and building a high quality business over the long term. We believe that by staying true to our customers, brands, values and vision, we can weather the challenges, and take advantage of all the opportunities that time may bring.

Yours sincerely,



Kate Morris

Co-Founder and Executive Director

Adore Beauty Group Limited

AS WE HAVE DONE FOR OUR FIRST 20 YEARS, WE ARE FOCUSED ON SUSTAINABLE GROWTH AND BUILDING A HIGH QUALITY BUSINESS OVER THE LONG TERM. WE BELIEVE THAT BY STAYING TRUE TO OUR CUSTOMERS, BRANDS, VALUES AND VISION, WE CAN WEATHER THE CHALLENGES, AND TAKE ADVANTAGE OF ALL THE OPPORTUNITIES THAT TIME MAY BRING.

— **Kate Morris**
Co-Founder and Executive Director



Section 1.

Investment
Overview



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1.1. Overview of Adore Beauty and its business model

Topic	Summary	For more information
Who is Adore Beauty?	<p>Adore Beauty is Australia's number one pureplay online beauty retailer.¹ The Company is an integrated content, marketing and e-commerce retail platform that partners with beauty and personal care brands to introduce customers to a large range of products to suit a variety of needs and preferences. 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.</p> <p>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.</p> <p>Adore Beauty's aspiration is to transform the beauty shopping experience and drive online penetration to own the beauty category in Australia and New Zealand, and be the pre-eminent online destination for a broad selection of premium beauty, wellness, personal care products across skin, hair, make up, accessories and close adjacencies.</p>	Section 3.1
What is Adore Beauty's history?	<p>In 2000, Kate Morris and James Height started Australia's first beauty e-commerce site from a garage in Melbourne. The Company began by partnering with local brands and eventually signed Adore Beauty's first international brand, Clarins, in 2006. Adore Beauty developed its identity as a trusted, reputable online retailer of beauty products over time as it continued to partner with leading beauty brands globally.</p> <p>Over time, Adore Beauty has evolved into an integrated content, marketing and e-commerce retail platform in order to better meet customer needs. In 2016, Beauty IQ was launched in its current form, which is Adore Beauty's in-house editorial content platform including beauty news, reviews, tips and expert how-to articles to educate the customer to make empowered purchasing decisions.</p> <p>In 2018, Adore Beauty moved into a new warehouse and upgraded its warehouse management system to support future growth in the business.</p> <p>In 2019, Adore Beauty launched its dedicated New Zealand website.</p>	Section 3.2
Where does Adore Beauty operate?	<p>In FY20, Adore Beauty had over 18.5 million website users across its Australian and New Zealand websites, with the majority of users originating from Australia. As at 30 June 2020, Adore Beauty serviced over 590,000 Active Customers² from its headquarters in Melbourne, Australia.</p>	Section 3.3.2.1

1. Management estimates based on third party industry reports (2019, 2020), third party supplier data (2019), third party and internal customer data (2019, 2020), third party website traffic data (2020).

2. Active Customers are defined as customers who have purchased a product from Adore Beauty over the last 12 month period.

Section 1. Investment Overview

Topic	Summary	For more information
What is Adore Beauty's business model and how does it generate revenue?	<p>Adore Beauty generates its revenue through online sales of third-party beauty and personal care products to Australian and New Zealand consumers.</p> <p>Adore Beauty's business model is based on three key elements which drive a powerful network effect attracting new customers and new brands to the platform:</p> <ul style="list-style-type: none"> • Range authority: Adore Beauty offers Australian and New Zealand consumers a broad and compelling range of beauty and personal care products across prestige, professional, niche and masstige brands, with over 230 brands and over 11,000 products (including exclusives). Adore Beauty provides brands with access to a large, engaged customer base and a strong marketing platform; • Best online transaction experience: Adore Beauty seeks to provide customers with an outstanding online shopping experience by: providing customers with instant gratification as a result of a seamless transaction experience, creating an engaging and individualised shopping experience through AI-led personalisation and recommendations, and engaging customers at all stages of the 'sales funnel' from discovery to repurchase; and • Data-enriched customer engagement: Adore Beauty engages customers through an integrated content, marketing, and e-commerce retail platform, with personalisation to satisfy customer's beauty and personal care needs, driving loyalty and increasing their frequency and size of spend with Adore Beauty over time. 	Sections 3.1 and 3.4
What are Adore Beauty's key products?	<p>Adore Beauty is a stockist of global and domestic beauty and personal care brands with category verticals including skincare, make up, hair care, fragrance and wellness. It offers a broad and diverse portfolio of over 230 brands and 11,000 products, comprising a range of prestige, high-end department store brands, professional salon brands, "cult" and niche brands, and masstige brands.</p>	Section 3.4.2.1
What differentiates Adore Beauty from other similar platforms?	<p>Adore Beauty's key points of differentiation include:</p> <ul style="list-style-type: none"> • Focus on customer service; • Seamless transaction experience; • Best-in-class delivery times; • Authentic personalisation through leveraging Adore Beauty's customer data; • Authentic and engaging content; and • Range authority. 	Section 3.4
What is Adore Beauty's business and growth strategy?	<p>Adore Beauty has multiple avenues for pursuing growth through clearly defined strategic initiatives leveraging data and market position. Adore Beauty's growth strategy is focused on two pillars: (1) growing the core business; and (2) expanding into new markets and adjacent categories:</p> <p>Growing the core business:</p> <ul style="list-style-type: none"> • Growing brand awareness: Adore Beauty believes there is significant opportunity to increase its current levels of brand awareness to +80% (brand awareness was measured to be 47% as at 15 July 2020); • Further building offering for customers that do not know what they want to purchase: The Company hopes to support customers' decision-making through guided navigation to a small selection of products, in an authentic, personalised way. Guided onsite navigation and telehealth consults are among the options being explored; • Leveraging data set to further provide authentic personalisation: Adore Beauty is looking to grow conversion, engagement and customer lifetime value through continued investment in initiatives that leverage the Company's deep customer data set; 	Section 3.8

Topic	Summary	For more information
What is Adore Beauty's business and growth strategy? <i>continued</i>	<ul style="list-style-type: none"> • Launching Mobile App: Adore Beauty intends to launch a Mobile App in late 2020. The Mobile App will have a content-first focus, delivering highly personalised and relevant content to engage customers with blog posts, guides, routines and reviews, and to provide a seamless transition to purchase; and • Enhancing loyalty and rewards to drive customer retention: Adore Beauty is looking to launch a loyalty program. This is likely to take the form of a holistic tiered program including financial, experiential, useful, personal and social benefits, delivering tangible perceived value to members and providing members with a sense of belonging and inclusivity. <p>Expanding into new markets and adjacent categories:</p> <ul style="list-style-type: none"> • Private label: Adore Beauty will aim to leverage its customer knowledge, data and experience to tailor brands and products for identified gaps in the target market. Private label brands will enable Adore Beauty to fill product offering gaps, increase flexibility in marketing and design and improve supply chain management through control of sourcing, volume and timely delivery; and • Category and market adjacencies: Adore Beauty will continue to increase the number of brands offered as well as expand its product categories. The Company is looking to target related verticals that it believes its customers will respond to, and that stay true to its brand voice. 	Section 3.8

1.2. Key features of Adore Beauty's industry

Topic	Summary	For more information
What industries and segments does Adore Beauty operate in?	<p>Adore Beauty is a pureplay online retailer operating in the beauty and personal care industry in Australia and New Zealand. Its growth will be influenced by the performance of the e-commerce industry, specifically the Online Retail Market, and the beauty and personal care market.</p> <p>The beauty and personal care market is a large and growing market consisting of a range of categories, including skin care, hair care, body care, cosmetics, fragrances, oral care, men's grooming, electrical appliances, dietary supplements and sex products.</p>	Sections 2.1, 2.2, 2.3 and 2.4
What is e-commerce?	E-commerce is the abbreviation for electronic commerce. It describes a business model that enables individuals and companies to conduct a wide range of commercial transactions via the internet or a mobile app.	Section 2.2
What is the Online Retail Market?	The segment of the e-commerce market that relates to transactions involving the purchasing of goods and services is referred to as the "Online Retail Market". Adore Beauty's core operations involve business to consumer (B2C) e-commerce transactions, which describes a transaction where a business provides goods or services to a consumer.	Section 2.2
What are the key drivers of the Australian Online Retail Market (B2C)?	<p>The Australian Online Retail Market (B2C) is subject to several drivers, including for example:</p> <ul style="list-style-type: none"> • Evolving consumer preferences and online retail innovation: Consumers are increasingly accepting the use of online retail. The extensive use of e-commerce by consumers has likely been the result of increasing innovation from e-commerce retailers resulting in a better customer experience, increasing breadth of product range available online, improving delivery times, flexible return policies, greater convenience and accessibility relative to bricks and mortar stores, access to customer reviews and discounting opportunities that are available online; 	Section 2.2

Section 1. Investment Overview

Topic	Summary	For more information
What are the key drivers of the Australian Online Retail Market (B2C)? <i>continued</i>	<ul style="list-style-type: none"> • Internet access and network infrastructure: In recent years, there has been an increasing number of internet users, specifically mobile internet users that primarily use smartphones. Furthermore, the underlying infrastructure supporting these devices has improved, becoming more reliable, faster and secure; and • New payment options: Buy-now-pay-later (BNPL) payment options, which allow customers to pay in instalments over time, are increasingly offered by both bricks and mortar as well as e-commerce retailers. 	Section 2.2
What are the key trends affecting the Australian beauty and personal care market?	<p>The Australian beauty and personal care market is subject to several trends, including for example:</p> <ul style="list-style-type: none"> • Premiumisation: Consumers are seeking effective solutions to their unique concerns and needs through the use of high quality ingredients. Further, consumers are increasingly focused on products that contain natural, organic, artisanal and environmentally-friendly qualities; • Online penetration: In recent years, consumers have increasingly purchased beauty and personal care products online. This trend is expected to continue into the future as the online customer experience evolves. Frost & Sullivan forecasts that the COVID-19 pandemic will accelerate the rate of online penetration as government mandated measures have impacted consumers' ability to physically visit retailers which has changed consumers' shopping behaviours; and • COVID-19: The COVID-19 pandemic has affected categories in the Australian beauty and personal care market in different ways including, for example, a shift away from cosmetics to skin care products as the pandemic has emphasised the need for consumers to focus on self-care and health and consumers spending more time at home resulting in an increase in the use of essential products (e.g. body care). 	Section 2.3
What are the key drivers of the Australian online beauty and personal care market?	<p>The Australian online beauty and personal care market is subject to several drivers, including for example:</p> <ul style="list-style-type: none"> • Improving online customer experience: Including ease of purchasing process, access to personalised content and recommendations not available instore; • Broad range of brands and products available: Including premium, niche and international products not readily available instore; • Reduced online purchasing risk: Reliability of the delivery network, improved online credit card transaction capabilities and increasing ability to return products easily; and • COVID-19: Changing shopping behaviours and preferences driven by government mandated restrictions (including lock downs or social distancing measures) and consumer aversion to physically visiting retailers due to health concerns. 	Section 2.4.2

Topic	Summary	For more information
What is the size of Adore Beauty's addressable market?	<p>According to a market study conducted by Frost & Sullivan, the Australian beauty and personal care market (both offline and online) in CY19 generated sales of approximately \$10.9 billion. Sales in this market are estimated to have grown at a 5.9% CAGR in current prices in the three years to CY19. Taking into account the broader economy, Frost & Sullivan further estimates that the total Australian beauty and personal care market is expected to grow at a 3.6% CAGR over a four year period to CY24F, reaching a market size of \$12.9 billion.</p> <p>Frost & Sullivan estimate that the Australian online beauty and personal care market has achieved online penetration of 7.3% in CY19, and therefore estimate a market size of the Australian online beauty and personal care market of \$797 million for CY19. Frost & Sullivan forecast that online penetration in this market will increase to approximately 24.9% by CY24F. Frost & Sullivan estimates that this market will grow at a 26.0% CAGR in current prices in the four years to CY24F, resulting in a market size of approximately \$3.2 billion. This estimate takes into account the potential impact of COVID-19.</p> <p>Through its dedicated New Zealand website launched in 2019, Adore Beauty also competes in the New Zealand beauty and personal care market. Frost & Sullivan estimated the New Zealand beauty and personal care market size to be NZ\$1.7 billion in CY19. The overall online penetration rate in the New Zealand beauty and personal care market was 7.3%, with the online beauty and personal care market totalling NZ\$125.3 million over the same period.</p> <p>By CY24F, Frost & Sullivan forecasts the New Zealand beauty and personal care market to grow at a 3.6% CAGR over a four year period to reach NZ\$2.0 billion. Following COVID-19, online penetration is forecast to reach 10.6% by CY24F, resulting in a market size of approximately NZ\$225 million.</p>	Sections 2.2 – 2.7
Who does Adore Beauty compete with?	<p>Adore Beauty competes against a diverse range of retailers in the Australian beauty and personal care market that each have a different product and customer focus, as well as differing levels of online capability. Competitors can be categorised as traditional physical retailers (also known as bricks and mortar retailers), omni-channel retailers or pure-play e-commerce retailers.</p> <p>Typical omni-channel retailers include:</p> <ul style="list-style-type: none"> • Department stores, such as David Jones and Myer. Department stores have a broad retail focus, not specifically focused on beauty and personal care products. Department stores are likely to offer a mix of premium and mass products. • Beauty and personal care specialists, such as Mecca, Sephora, Hairhouse Warehouse, and professional salons. Beauty and personal care specialists are often vertically integrated, selling a mix of global brands and own-branded products. They typically have a broad and premium product offering, with deep beauty and personal care expertise. There is generally a focus on customer experience (e.g. in-store product demonstrations). Traditionally, beauty and personal care specialists have focused on selling products in-store. • Grocery stores, such as Coles and Woolworths. Grocery stores tend to offer a limited range of mass market beauty and personal care products. Products are sold in a "big-box" store format, which represents a convenient method for consumers to purchase mass-market beauty and personal care products as part of their regular grocery shop. • Pharmacies, such as Priceline and Chemist Warehouse. Pharmacies typically have a health and wellbeing product focus, as well as focusing on beauty and personal care products. Pharmacies typically do not focus on premium or niche brands or products and are likely to compete on price. 	Section 2.3.3.1

Section 1. Investment Overview

Topic	Summary	For more information
Who does Adore Beauty compete with? <i>continued</i>	<p>Typical pure-play e-commerce retailers include:</p> <ul style="list-style-type: none"> • Online beauty and personal care specialists, such as Adore Beauty, lookfantastic.com, and Recreate Yourself. These retailers generally have strong expertise in beauty and personal care products, providing a broad range of products with a focus on the premium and niche segment of the market. Online beauty and personal care specialists focus on providing a seamless transaction experience. This is typically achieved by providing customers with access to product reviews and recommendations, providing relevant content to drive product discovery, and increasing personalisation through technological capabilities. • Online generalist retailers, such as Amazon and Catch. Online generalist retailers have a broad product offering and tend to compete on price. They do not have specific beauty and personal care product expertise. • Online marketplaces, such as Ebay. Online market places connect consumers with other individuals or retailers, and typically do not have a specific beauty and personal care focus or expertise. <p>Competition may also come from third-party suppliers establishing their own distribution capability or online presence as opposed to utilising a retailer.</p>	Section 2.3.3.1

1.3. Adore Beauty's key strengths

Topic	Summary	For more information
Large addressable market	<p>Frost & Sullivan estimate that the total Australian beauty and personal care market in CY19 generated sales of approximately \$10.9 billion, and is forecast to grow at a 3.6% CAGR over a four year period to CY24F, reaching \$12.9 billion.</p> <p>The Australian beauty and personal care market had relatively low online penetration of 7.3% in CY19, compared to the United States at 15.4% and the United Kingdom at 12.7% over the same period of time. This represents a significant growth opportunity for the Australian online beauty and personal care market, where Frost & Sullivan forecasts online penetration rates to increase to 24.9% by CY24F. This is likely to result in the Australian online beauty and personal care market to grow at a 26.0% CAGR over a four year period to CY24F to reach approximately \$3.2 billion. This estimate takes into account the potential impact of COVID-19.</p> <p>Drivers of the Australian online beauty and personal care market include: improving online customer experience, broad range of brands and products online, reduced online purchasing risk and changing shopping behaviours and preferences as a result of the COVID-19 pandemic.</p>	Sections 2.3 and 2.4
Broad product range, seamless transaction experience and customer-led engagement	<p>Adore Beauty believes that customers are attracted to the Company because of the quality and breadth of the range it has curated, with over 230 brands and 11,000 products, comprising a range of prestige, high-end department store brands, professional salon brands, 'cult' and niche brands, and masstige brands. Adore Beauty is able to maintain a strong and diverse portfolio of products because brands value access to Adore Beauty's growing and loyal customer base.</p> <p>Adore Beauty seeks to provide customers with an outstanding online shopping experience through:</p> <ul style="list-style-type: none"> • Providing instant gratification as a result of a seamless transaction experience; • AI-led personalisation and recommendations; and • Engaging customers at all stages of the 'sales funnel' from discovery to repurchase. <p>In addition, Adore Beauty believes that it is able to improve customer retention rates by integrating original editorial content published on Beauty IQ with its e-commerce platform. The Company believes that Beauty IQ drives a loyal customer base as it increases contact and engagement with customers between purchases by providing a platform for customers to consume educational and entertaining content.</p>	Sections 3.4.2, 3.4.3 and 3.4.4

Topic	Summary	For more information
Data enriched integrated content and marketing platform	<p>Adore Beauty has developed an integrated content-enriched platform that takes website visitors on a journey to acquire, engage, convert and re-market. Adore Beauty provides original content via its editorial content platform, Beauty IQ, as well as through the Company's "Beauty IQ Uncensored" podcast which receives 131k downloads per month across all streaming platforms, and is ranked #1 for Fashion and Beauty in Australia on iTunes.³ Adore Beauty has also developed an authentic and powerful social media engine, with 157k Instagram followers, 1.3M+ Youtube views and 113k Facebook followers.⁴</p> <p>Adore Beauty leverages one of Australia's largest proprietary beauty data sets to deliver an exceptional experience for both customers and brands. Adore Beauty's data collection touch points include traffic, product trends, marketing, brand perception, shipping, inventory, transaction, returns and customer behaviour.</p> <p>The customer experience is enhanced with the use of BeautyWise, Adore Beauty's AI-driven beauty recommendation engine designed to provide a product recommendation service which resembles in-store cosmetic counters, but in a scalable and brand-agnostic format. BeautyWise seeks to increase the level of personalisation and relevance to each consumer by providing a tailored customer experience.</p> <p>Further, the brands experience is enhanced as Adore Beauty communicates to brands their weekly sales data, insights and their relative ranking against competing products and brands on the platform. This information allows brands to measure the benefits achieved by participating in content creation with Adore Beauty, featuring in Beauty IQ editorials, or participating in free sample and gift with purchase programs.</p>	Sections 3.4.3.1, 3.4.3.2 and 3.4.3.3
Scalable business supported by "best-in-breed" technology	<p>Adore Beauty has invested in its infrastructure and technology platform to support continued customer growth:</p> <ul style="list-style-type: none"> • Adore Beauty has an optimised inventory and warehouse management system that is built for efficiency with best-in-class dispatch and delivery times. Adore Beauty has generally maintained a 99.99% pick accuracy since upgrading its warehouse management systems in 2018;⁵ • The Company leases a 4,370sqm warehouse which is strategically located close to Australia Post's processing facility and Melbourne Airport. There is significant warehouse capacity with utilisation rates at approximately 31%;⁶ • In 2019, Adore Beauty moved to a headless commerce platform, which provides the ability to adopt 'best of breed' technology and is agile, nimble and scalable; and • A casual workforce, a flexible second shift and access to additional resources via a labour-hire firm allows Adore Beauty to scale labour depending on customer demand. 	Sections 3.4 and 3.5

3. Podcast download metrics as at 28 August 2020. Podcast ranking statistics as at 26 August 2020.

4. Metrics as at 28 August 2020.

5. Pick accuracy rate based on proportion of customer returns for pick and pack errors (being 0.01% of orders).

6. Based on the average of 6,469 orders, per day in August, the utilisation for COVID-19 operations is 43% and the utilisation for non-COVID-19 operations is 31%.

Section 1. Investment Overview

Topic	Summary	For more information
Proven ability to attract, profitably acquire, retain and increase customer value over time	<p>By improving its customer proposition and focusing on high quality customer service over time, Adore Beauty has attracted and retained a large and loyal active customer base, having grown by 278% over the past four years to over 590,000 Active Customers today. In FY20, Adore Beauty's customer retention rate was 61.3%.⁷</p> <p>Adore Beauty believes that the evolution of its average revenue per Active Customer by cohort demonstrates the Company's increasing value proposition with customers.⁸ This highlights that, for the customers that are returning to the platform, they are on average spending more in subsequent years.</p> <p>Furthermore, consistent revenue contribution by cohorts over time demonstrates the long-term value that returning customers represent to Adore Beauty following their initial purchase. For example, customers that initially purchased from Adore Beauty in FY12 were contributing to Adore Beauty's revenue in FY20.</p> <p>In determining how successful Adore Beauty's customer acquisition and engagement strategy is, the Company closely monitors the initial customer acquisition cost (CAC), contribution margin and lifetime value (LTV) of its customer cohorts. Adore Beauty's customer cohorts have attractive unit economics, with the average CAC in each cohort analysed being recovered within one year of acquiring the customer. Furthermore, the ratio of LTV to CAC has grown in each subsequent year for these cohorts analysed.⁹</p>	Sections 3.3 and 3.4.4.2
Multiple growth avenues through clearly defined strategic initiatives leveraging data and market position	<p>Adore Beauty has multiple avenues for pursuing growth in its existing business, including:</p> <ul style="list-style-type: none"> • Growing brand awareness: Aim to reach the millions that have not yet heard of Adore Beauty and build trust and connection to drive traffic and conversion growth; • Further building offering for customers who do not know what they want to purchase: Support decision-making of customers through guided navigation to a small selection, in an authentic, personalised way; • Leveraging data set to further provide authentic personalisation: Grow conversion, engagement and lifetime value through continued investment in initiatives that leverage Adore Beauty's deep customer data set; • Launching a Mobile App: Content-first focus, delivering highly personalised and relevant content to engage customers with blog posts, guides, routines and reviews, and to provide a seamless transition to purchase; and • Enhancing loyalty and rewards program: Vision to have the most rewarding loyalty program in Australia and New Zealand by creating a highly personalised and tailored customer experience. <p>Furthermore, Adore Beauty has identified growth opportunities through expanding into new markets and adjacent categories:</p> <ul style="list-style-type: none"> • Private label: Leverage customer knowledge, data and experience to tailor brands and products for identified gaps in the target market and increase financial margins; and • Adjacencies: Target related verticals that Adore Beauty believes its customers will respond to, and that stay true to its brand voice. 	Section 3.8

7. Retention rate = (Active Customers as at the end of the relevant financial year - Active Customers acquired during the relevant financial year) divided by Active Customers as at the commencement of the relevant financial year. Active Customers means customers who have made a purchase in the last 12 months.

8. Adore Beauty's customers are included in cohorts based on the financial year in which the customer places its first order with Adore Beauty.

9. Customer cohorts analysed were FY18, FY19 and FY20. Refer to Section 3.3.2.2 for more detail.

Topic	Summary	For more information
Founder-led business with a highly experienced management team	<p>Adore Beauty is led by a highly experienced and well-regarded management team, comprising Chief Executive Officer (CEO) Tennealle O'Shannessy, Chief Financial Officer (CFO) Stephanie Carroll, Chief Marketing Officer (CMO) Dan Ferguson, Chief Operations Officer (COO) Sarah Mullen and Chief Technology Officer (CTO) Gareth Williams and Human Resources Manager, Milly Gunn. The management team have deep experience across technology, e-commerce and retail which will support Adore Beauty's growth strategy.</p> <p>Kate Morris and James Height will remain in the Company as Executive Directors and major Shareholders of Adore Beauty. Both have been fundamental in the evolution and success of the business to date. They remain committed to the business and will oversee its next phase of growth as an ASX-listed company. Following the Offer, Quadrant Growth Fund, the co-founders and management will retain 32.5%, 21.7% and 3.4% of Shares at Completion in Adore Beauty, respectively. These retained shares will be subject to selling restrictions, pursuant to voluntary escrow arrangements as discussed under Section 9.6 of this Prospectus.</p> <p>Adore Beauty has an experienced Board of Directors that bring relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience. The Board of Directors comprise Justin Ryan as Chair, Kate Morris and James Height as Executive Directors, Marina Go and Sandra Birkenleigh as Non-Executive Directors.</p>	Sections 6.1 and 6.2

1.4. Key risks

Topic	Summary	For more information
Performance and reliability of Adore Beauty's website, databases, its operating systems and internet and risk of data security breaches	<p>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.</p> <p>There is a risk that if one or more of Adore Beauty's critical operating systems do not function properly, there could be system disruptions, corruption of databases or other electronic information, delays in marketing events to drive sales, delays in transaction processing, delays in receiving or processing orders through the warehouse, website slowdown or unavailability, loss of data or the inability to accept and fulfil customer orders.</p>	Section 5.1.1
Continued growth of retail e-commerce and growth in demand for beauty and personal care products may be affected by general economic factors	<p>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 or as currently forecast.</p> <p>We are subject to factors outside our 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.</p> <p>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.</p>	Section 5.1.2

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Topic	Summary	For more information
New and existing competitors could adversely affect prices and demand for beauty and personal care products and decrease our market share	<p>The beauty and personal care market is highly fragmented. Competition can arise from a number of sources including traditional physical retailers, omni-channel, mono-channel, multi-branded retailers, and online-only e-commerce competitors.</p> <p>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 our network. This may increase the cost of customer acquisition and lower margins due to pricing pressure.</p> <p>Our 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.</p>	Section 5.1.3
We rely on third-party suppliers for our products	<p>The success of Adore Beauty's business and its ability to grow relies on its ability to retain its existing key supplier relationships and its ability to continue to attract suppliers on acceptable terms. Our 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 our 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 our financial and/or operational performance in the future.</p> <p>Third party suppliers may also have a "stock out" with insufficient quantities of products available in a timely manner, or encounter financial or material difficulties, labour shortages or unilaterally amend their terms of agreement with our competitors.</p>	Section 5.1.4
Exclusivity of brands	<p>Competitors will from time to time attempt to negotiate contracts with exclusivity terms with various brands (potentially including with brands that are stocked by Adore Beauty or that Adore Beauty wishes to stock).</p> <p>There is a risk that the brands Adore Beauty stocks, or would like to stock, could be subject to these exclusivity arrangements with a competitor in the future. If Adore Beauty is to lose core contributing exclusive and/or restraint brands then this may have a material effect on operating performance.</p>	Section 5.1.5
Our recent growth rates may not be sustainable or indicative of our future growth	<p>The success of the business depends on our ability to acquire customers in a cost-effective manner. However, there is a risk that we may need to spend more than we anticipate to acquire and retain customers or may generate less revenue per customer than anticipated, either of which could have a negative impact on the business and the results of operations. In addition, our historical growth rates may not be sustainable or indicative of future growth.</p>	Section 5.1.6
The growth in online penetration and rate of migration to online platforms	<p>Growth in e-commerce is being driven partly by the migration of customers from a traditional offline retailing experience to online retailing platforms across a number of segments. This factor is outside our control and there is no guarantee that the migration of customers will continue to grow in the future despite the historical and forecast growth patterns in Australia and New Zealand.</p> <p>If the rate of penetration and migration to e-commerce does not increase in line with our assumptions, Adore Beauty may not be able to attract new and repeat customers at currently-anticipated rates, and this may have a material adverse effect on our financial and operational performance in the future.</p>	Section 5.1.7

Topic	Summary	For more information
Changes in customer preferences	<p>We derive our revenue from the beauty and personal care market which is subject to on-trend, and style specific customer preferences. Customer spending in this segment is primarily discretionary in nature, as is generally the case with the retail e-commerce market, and customers may allocate this discretionary spend across different product categories or other services from time to time.</p> <p>Our failure to accurately predict or respond to customer preferences could result in lower sales or margins or reputational damage to the Adore Beauty brand, and could have a material adverse effect on our financial and/or operational performance.</p>	Section 5.1.8
Changes in technology and technology updates	<p>The retail e-commerce market is influenced by changing technologies and adapting industry standards for the future.</p> <p>We may be impacted by our ability to maintain and update our technology platforms to address such changes. Maintaining and updating our technology could involve a significant cost and no assurance can be given that we will have the capital required to develop or acquire new technologies in the future required to meet any future changes.</p>	Section 5.1.9
Adore Beauty's brand and platform attractiveness to customers could be impacted by negative publicity and/or unfavourable customer complaints	<p>Maintaining and enhancing our brand and product offering is critical to expanding Adore Beauty's customer base and suppliers. However, Adore Beauty relies on a significant number of third parties to provide its products and services and Adore Beauty's brand experience and platform attractiveness is impacted by the quality of products from suppliers and services levels or logistics providers. If these third parties do not meet our customer's expectations, our platform may suffer damage and potentially lower customer satisfaction.</p> <p>Customer complaints or negative publicity about our website, products, product delivery times, customer data handling and security practices or customer support, especially on blogs, social media and our own website, could materially impact consumer use of the website and consumer and supplier confidence in Adore Beauty. This may have an adverse effect on Adore Beauty's brand and platform attractiveness.</p>	Section 5.1.10
COVID-19	<p>Events related to the Coronavirus pandemic (COVID-19) have resulted in significant market volatility. There is continued uncertainty as to ongoing and future response of governments and authorities globally as well as a likelihood of an Australian economic downturn of unknown duration or severity. As such, the full impact of COVID-19 to consumer behaviour, suppliers, employees and the Company are not fully known. Given this, the impact of COVID-19 could potentially be materially adverse to the Company's financial and/or operational performance.</p> <p>Further, any government or industry measures may adversely affect our operations and are likely beyond our control. In compliance with its continuous disclosure obligations, we will continue to update the market in regard to any material impact of COVID-19 on our business.</p>	Section 5.1.11

Section 1. Investment Overview

Topic	Summary	For more information
COVID-19 State and Federal Government restrictions	<p>Due to COVID-19, the State and Federal Governments have imposed social-distancing restrictions which have, and may continue to, disrupt the operations of our business. There is a risk that social-distancing restrictions persist, potentially resulting in an increasing reliance on technology to communicate with employees which may impact on our ability to attract and motivate employees, in particular new team members.</p> <p>Further, Government restrictions may disrupt, and may continue to disrupt, Adore Beauty's warehouse operations. Government restrictions on warehouse operations may impact Adore Beauty's ability to fulfil orders in a timely manner or at all. This may directly impact Adore Beauty's customer service (including order delivery timeframes), sales levels and may indirectly impact other initiatives designed to support Adore Beauty's growth (for example, the need to redeploy marketing and promotional resources to customer order fulfilment may delay the Company's marketing and promotional initiatives).</p>	Section 5.1.12
COVID-19 supply chain impact	<p>There remains a risk that the spread of COVID-19 has an adverse impact on our supply chain. This could occur if the ability to transport products between countries is disrupted, our key suppliers are negatively affected or we are otherwise unable to efficiently distribute products to customers. In the event that our supply chain is disrupted, this may have a material adverse effect on our financial and/or operating performance.</p>	Section 5.1.13
We rely on services provided by third party banking, telecommunications, insurance, payment and logistics providers	<p>We rely on the services provided by third party banking, telecommunications, insurance, payment and logistics providers and have limited influence over these third parties. Any system or service failure that interrupts our ability to make or receive payments could adversely affect our business.</p> <p>A system or service failure that affects the delivery of ordered products to customers (including any failure arising as a result of State or Federal Government-mandated restrictions that may be imposed from time to time in response to COVID-19) could adversely affect the customer experience and reduce the attractiveness of our website to customers, limiting future sales.</p> <p>In addition, if Adore Beauty inadvertently breaches the agreements that it has in place with such banking, telecommunications, insurance, payment and logistics providers, Adore Beauty may be required to pay higher fees to those providers and/or the providers may have a right to terminate their relationship with Adore Beauty. If a provider terminates their relationship, Adore Beauty will need to source and negotiate terms with an alternative provider. There is no guarantee that Adore Beauty will be able to source an alternative provider on terms and conditions that are as favourable to Adore Beauty as the existing terms and conditions, if at all.</p>	Section 5.1.14
Inventory management	<p>If our inventory management system fails or provides inaccurate information, we may experience disproportionate demand and supply for specific products or "stock-out" issues. This may result in lost sales, increased holding costs, less than forecast margins, damage to our reputation or brand which may have a material adverse effect on our financial and/or operational performance</p>	Section 5.1.15
Increase in the cost of or reliance upon paid marketing	<p>Adore Beauty's reliance on paid marketing may increase if it were to suffer negative publicity or if its market share were to decline, or if any other factor impacted on its brand or reputation. In addition, if the Company's websites were to experience a reduction in natural search visibility in search engines, it could increase Adore Beauty's reliance on search engine marketing. Adore Beauty's business, financial performance and/or operations may be materially adversely affected by any increase in the cost of, or in reliance on, search engine marketing, or any decrease in the effectiveness of its search engine marketing.</p>	Section 5.1.16

Topic	Summary	For more information
Employee recruitment and retention	<p>Our future success is dependent on our ability to attract and/or retain individuals that will complement our culture and retain an experienced senior management team. Competition for key personnel within the retail e-commerce market could increase the demand and cost for quality employees.</p> <p>While Adore Beauty undertakes succession planning in the ordinary course of business, our business may be disrupted and our financial and/or operational performance could be materially adversely affected if we cannot attract and/or retain employees or senior management personnel to implement our growth strategy.</p>	Section 5.1.17
Financial information and basis of forecasts	<p>The forward-looking statements, opinions and estimates provided in this Prospectus (including any forecast financial information provided) rely on various contingencies and assumptions, some of which are described in Section 4.</p> <p>Various factors and risks, both known and unknown, many of which are outside the control of Adore Beauty, may impact upon the Company's performance and cause actual performance to vary significantly from expected results. While the forecasts have been prepared with due care and attention, and the Company considers the assumptions to be reasonable, future events and conditions cannot be reliably predicted and the assumptions are subject to significant uncertainties. Actual results are likely to vary from the forecast and any variation may be materially positive or negative.</p> <p>There is no guarantee that Adore Beauty will achieve its stated objectives or that any forward-looking statements or forecasts outlined in the Prospectus will eventuate.</p>	Section 5.1.24
Our possible expansion into new markets may not be successful	<p>Any future acquisitions or expansions into new markets (in product segments, relevant adjacencies and potentially geographically) may expose us to unforeseen risks. A number of these risks could include regulatory requirements, complications or inefficiencies related to staff, managerial and operational performance, enforcing contractual obligations and intellectual property rights, differing consumer sentiments and preferences, competition from existing established competitors, exchange rate fluctuations, political or economic instabilities, and taxation. Adore Beauty is experienced in dealing with such issues in Australian and New Zealand markets, but has little experience outside those jurisdictions.</p> <p>We will make informed decisions on the attractiveness and effectiveness of any future acquisitions or expansions into new markets, based on information available to us at that time. If such information turns out to be inaccurate, or circumstances arise outside of our control while entering these new markets, there may be a material adverse effect on the financial and/or operational performance of the Company.</p>	Section 5.1.28
Other key risks	<p>The above risks are a summary of some of the key risks associated with an investment in Adore Beauty, but they are not an exhaustive list of all the key risks that may affect Adore Beauty or that may be associated with an investment in the Shares. A number of other key risks are included in Section 5, and investors should review all of these carefully before making an investment decision.</p>	Section 5

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Section 1. Investment Overview

1.5. Key financials and dividend policy

Topic	Summary	For more information																																															
What is Adore Beauty's dividend policy?	<p>The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors (many of which may be outside the control of the Company and its Directors and management, and are not reliably predictable), including the general business environment, operating results, cash flows and financial condition of Adore Beauty, future funding requirements, capital management initiatives, taxation considerations, any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Directors may consider relevant.</p>	Section 4.1.1																																															
	<p>While it is the aim of the Company that, in the longer term, its financial performance and position will enable the payment of dividends, at the Prospectus Date, the Company, does not intend, nor expect, to declare nor pay any dividends in the immediately foreseeable future.</p>																																																
What is Adore Beauty's pro forma historical and forecast financial performance?	<p>Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Results for FY18, FY19, FY20, CY19 and CY20F</p> <table><tr><th rowspan="2">A\$ millions</th><th rowspan="2">Notes</th><th colspan="3">Pro Forma FY</th><th colspan="2">Pro Forma CY</th></tr><tr><th>FY18</th><th>FY19</th><th>FY20</th><th>CY19</th><th>CY20F</th></tr><tr><td>Revenue</td><td></td><td>52.8</td><td>73.2</td><td>121.1</td><td>89.7</td><td>158.2</td></tr><tr><td>Gross Profit</td><td></td><td>16.0</td><td>22.0</td><td>38.5</td><td>27.5</td><td>50.8</td></tr><tr><td>EBITDA</td><td>1</td><td>1.4</td><td>1.6</td><td>5.0</td><td>3.2</td><td>6.4</td></tr><tr><td>EBIT</td><td>2</td><td>1.2</td><td>0.8</td><td>3.8</td><td>2.1</td><td>5.1</td></tr><tr><td>NPAT</td><td>3</td><td>0.9</td><td>0.5</td><td>2.5</td><td>1.4</td><td>3.5</td></tr></table> <p>Notes:</p> <p>1. Included in other costs are pro forma public company costs that have been included for all historical periods. In this regard, we note that FY18 and FY19 are periods in which significantly lower levels of revenue were generated, when compared to FY20 and Management's forecast expectations. As such, while public company costs have been included in all historical periods for consistency, the inclusion of these costs in FY18 and FY19 has a detrimental impact on earnings in periods where these costs would otherwise not have been incurred.</p> <p>2. Depreciation and amortisation includes the depreciation of leased assets and plant and equipment, as well as the amortisation of capitalised development costs. On a pro forma historical basis, this includes depreciation in respect of right of use lease assets in FY19 and CY19 (with the impacts of AASB16 already incorporated into the Statutory Historical Results for FY20 and Forecast Pro Forma Results for CY20F), with no adjustment processed in this regard in FY18. It also includes amortisation of capitalised development costs arising in relation to the continued development of Adore Beauty's bespoke technology platforms.</p> <p>3. Included in income tax expense are pro forma adjustments to remove the once-off tax effects of the creation of the Adore Beauty tax consolidated group during FY19. The effect of establishing the tax consolidated group included a resetting of tax cost bases in accordance with the allocable cost amounts, resulting in one-off tax liabilities for Adore Opco and the consolidated group.</p>	A\$ millions	Notes	Pro Forma FY			Pro Forma CY		FY18	FY19	FY20	CY19	CY20F	Revenue		52.8	73.2	121.1	89.7	158.2	Gross Profit		16.0	22.0	38.5	27.5	50.8	EBITDA	1	1.4	1.6	5.0	3.2	6.4	EBIT	2	1.2	0.8	3.8	2.1	5.1	NPAT	3	0.9	0.5	2.5	1.4	3.5	Section 4.4.1
A\$ millions	Notes			Pro Forma FY			Pro Forma CY																																										
		FY18	FY19	FY20	CY19	CY20F																																											
Revenue		52.8	73.2	121.1	89.7	158.2																																											
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EBIT	2	1.2	0.8	3.8	2.1	5.1																																											
NPAT	3	0.9	0.5	2.5	1.4	3.5																																											

Topic	Summary	For more information			
What is Adore Beauty's pro forma historical and forecast financial performance? <i>continued</i>	Statutory Historical Results for FY18, FY19 and FY20				Section 4.4.1
	A\$ millions	Notes	FY18	FY19	FY20
	Revenue		52.8	73.2	121.1
	Gross Profit		16.0	22.0	38.5
	EBITDA		2.6	1.8	2.2
	EBIT		2.4	1.4	1.0
	NPAT	1	1.7	1.0	(1.2)
	Notes:				
	1. The tax expense recorded in FY20 includes once-off income tax expenses incurred by Adore Beauty in establishing a tax consolidated group in this year. The effect of this involved a resetting of tax cost bases in accordance with the allocable cost amounts, resulting in one-off tax liabilities for Adore Opco and the consolidated group.				
	Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Result for 1H FY20 and 1H FY21F				
		Pro Forma		Statutory	
A\$ millions	Notes	1H FY20	1H FY21F	1H FY20	1H FY21F
Revenue		52.0	89.0	52.0	89.0
Gross Profit		16.2	28.4	16.2	28.4
EBITDA	1	1.8	3.3	(1.4)	2.9
EBIT	2	1.3	2.6	(1.9)	2.2
NPAT	3	0.9	1.8	(3.2)	1.5
Refer to Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Results table above for notes.					

1.6. Board and management

Topic	Summary	For more information
Who are Adore Beauty's Directors?	Justin Ryan , Chair Kate Morris , Executive Director James Height , Executive Director Marina Go , Non-Executive Director Sandra Birkensteigh , Non-Executive Director	Section 6.1
Who are Adore Beauty's executives?	Kate Morris , Executive Director James Height , Executive Director Tennealle O'Shannessy , Chief Executive Officer Stephanie Carroll , Chief Financial Officer Gareth Williams , Chief Technology Officer Sarah Mullen , Chief Operations Officer Dan Ferguson , Chief Marketing Officer Milly Gunn , Human Resources Manager	Section 6.2

Section 1. Investment Overview

1.7. Significant interests of key people and related party transactions

Topic	Summary	For more information																									
Who are the Existing Shareholders and what will be their interest in the Company at Completion of the Offer?	Shareholdings of Existing Shareholders on the Prospectus Date and immediately following Completion of the Offer are set out in the table below.	Sections 6.4.1.3, 7.1.6 and 9.5.1.2																									
	<table><tr><th>Shareholder^{10, 11}</th><th>Prospectus Date</th><th>%</th><th>Completion</th><th>%</th></tr><tr><td>Quadrant Growth Fund</td><td>51,000,001</td><td>57.8</td><td>30,600,001</td><td>32.5</td></tr><tr><td>Kate Morris</td><td>17,000,000</td><td>19.3</td><td>10,200,000</td><td>10.8</td></tr><tr><td>James Height</td><td>17,000,000</td><td>19.3</td><td>10,200,000</td><td>10.8</td></tr><tr><td>Management Shareholders</td><td>3,199,163</td><td>3.6</td><td>3,199,163</td><td>3.4</td></tr></table>	Shareholder ^{10, 11}	Prospectus Date	%	Completion	%	Quadrant Growth Fund	51,000,001	57.8	30,600,001	32.5	Kate Morris	17,000,000	19.3	10,200,000	10.8	James Height	17,000,000	19.3	10,200,000	10.8	Management Shareholders	3,199,163	3.6	3,199,163	3.4	
	Shareholder ^{10, 11}	Prospectus Date	%	Completion	%																						
	Quadrant Growth Fund	51,000,001	57.8	30,600,001	32.5																						
	Kate Morris	17,000,000	19.3	10,200,000	10.8																						
	James Height	17,000,000	19.3	10,200,000	10.8																						
Management Shareholders	3,199,163	3.6	3,199,163	3.4																							
The Existing Shareholders will receive approximately \$0.194 per Share held as at the Prospectus Date as part of the Pre-IPO Capital Reduction. The Pre-IPO Capital Reduction will be completed prior to Completion of the Offer.																											
New Shareholders will hold in aggregate 39.9 million Shares immediately following Completion.																											
Quadrant Growth Fund, Kate Morris and James Height have entered into relationship deeds with the Company. For more information see Section 9.5.1.2.																											
What significant benefits are payable to Directors and other persons connected with the Company or the Offer and what interests do they hold?	For Shares expected to be held by Directors on Completion, refer to Section 6.4.1.3.	Sections 6.3 and 6.4																									
	<table><tr><th>Director</th><th>Prospectus Date</th><th>Completion</th></tr><tr><td>Kate Morris</td><td>17,000,000¹²</td><td>10,200,000</td></tr><tr><td>James Height</td><td>17,000,000¹²</td><td>10,200,000</td></tr><tr><td>Justin Ryan</td><td>Nil¹³</td><td>Nil</td></tr><tr><td>Marina Go</td><td>Nil</td><td>7,407¹⁴</td></tr><tr><td>Sandra Birkensleigh</td><td>Nil</td><td>7,407¹⁴</td></tr></table>	Director	Prospectus Date	Completion	Kate Morris	17,000,000 ¹²	10,200,000	James Height	17,000,000 ¹²	10,200,000	Justin Ryan	Nil ¹³	Nil	Marina Go	Nil	7,407 ¹⁴	Sandra Birkensleigh	Nil	7,407 ¹⁴								
	Director	Prospectus Date	Completion																								
	Kate Morris	17,000,000 ¹²	10,200,000																								
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	Justin Ryan	Nil ¹³	Nil																								
Marina Go	Nil	7,407 ¹⁴																									
Sandra Birkensleigh	Nil	7,407 ¹⁴																									
Directors and senior management are entitled to remuneration and fees as disclosed in Sections 6.4.1.4 and 6.4.1.5, and are entitled to participate in the incentive arrangements described in Sections 6.4.1.6 and 6.4.1.7.																											
Advisers and other service providers are entitled to fees for services and have other interests as disclosed in Section 6.3.1.1.																											
Will any Shares be subject to restrictions on disposal following Completion?	All Shares held on Completion of the Offer by Existing Shareholders (or entities that they control or that are associated with them) will be subject to voluntary escrow arrangements, which will prevent them from disposing of their escrowed Shares for specific periods.	Sections 7.13 and 9.6																									
Are there any other related party transactions?	Other than as disclosed in this Prospectus, Adore Beauty is not party to any material related party arrangements.	Sections 6.4.1.9 and 6.5																									

10. Shareholders may hold their interests in Shares directly, or through entities associated with them (e.g. through holdings by companies or trusts).

11. Refer also to Section 6.4.1.3 for further information on interests and benefits (including Directors' interests in Shares).

12. Kate Morris and James Height have expressed an intention to act in concert in relation to their Shares. As a result, Kate Morris and James Height are associates for the purposes of section 12(2)(c) of the Corporations Act and each of them has voting power in the other's shares.

13. Justin Ryan, as Managing Partner of Quadrant, will have an indirect interest in Shares through investment vehicles that hold an interest in the Quadrant Fund (alongside a number of other investors).

14. IPO Shares.

1.8. Overview of the Offer

Topic	Summary	For more information
Who is the issuer of the Prospectus?	Adore Beauty Group Limited (ACN 636 138 988)	Important Notices
What is the Offer?	<p>This Prospectus relates to an initial public offering of new Shares issued by Adore Beauty and the sale of existing Shares by SaleCo at an Offer Price of \$6.75 per Share (Offer Price). A total of 39.9 million Shares will be available under the Offer. These Shares will be available for investors under the Broker Firm Offer, the Institutional Offer and the Priority Offer. The Offer (excluding the Employee Gift Offer, under which no proceeds will be raised) is expected to raise approximately \$40.0 million from the issue of New Shares by the Company and for the Company's benefit and approximately \$229.5 million from the sale of Existing Shares by SaleCo.</p> <p>The Shares to be issued under the Offer will represent 42.4% of the Shares on issue at Completion of the Offer.</p>	Section 7.1
Why is the Offer being conducted?	<p>The purpose of the Offer is to:</p> <ul style="list-style-type: none"> • provide funding and financial flexibility for general corporate purposes, including to support the Company's growth strategy and future growth opportunities; • allow Existing Shareholders to realise part of their investment in Adore Beauty through the sale of Existing Shares through SaleCo; • broaden Adore Beauty's shareholder base and provide a liquid market for Shares; • provide Adore Beauty with the benefits of an increased brand profile that arises from being a publicly listed entity; and • pay transaction costs. 	Section 7.1.2
What is the consideration payable for the Shares?	The price payable under the Offer is \$6.75 per Share.	Section 7.1
What is SaleCo?	SaleCo is a special purpose vehicle that has been established to facilitate the sale of certain Existing Shares held by the Selling Shareholders.	Section 9.4
Will the Shares be quoted on the ASX?	<p>Adore Beauty will apply for admission to the Official List of the ASX and quotation of Shares on the ASX under the code "ABY".</p> <p>Completion is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>Adore Beauty will be required to comply with the ASX Listing Rules, subject to any waivers obtained by us from time to time.</p> <p>The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that Adore Beauty may be admitted to the Official List is not to be taken as an indication of the merits of Adore Beauty or the Shares offered for sale.</p>	Section 7.2
How is the Offer structured?	<p>The Offer comprises the following components:</p> <ul style="list-style-type: none"> • Broker Firm Offer: open to Australian resident retail clients of Brokers who have received a firm allocation of Shares from their Broker; • Priority Offer: open to selected investors in Australia who have received an invitation from the Company to apply for Shares at the Offer Price; • Employee Gift Offer: open to Eligible Gift Employees who have received an offer from the Company to acquire, at no cost, \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price); and • Institutional Offer: offer to Institutional Investors in Australia and certain other jurisdictions around the world, made under this Prospectus. 	Sections 7.3, 7.4, 7.5 and 7.8

Section 1. Investment Overview

Topic	Summary	For more information
Is the Offer underwritten?	The Joint Lead Managers have fully underwritten the Offer (other than the Employee Gift Offer) pursuant to the Underwriting Agreement.	Section 9.5.1
What is the allocation policy?	The allocation of Shares between the Institutional Offer and Retail Offer (including the Broker Firm Offer, the Priority Offer and the Employee Gift Offer) was determined by agreement between the Company and the Joint Lead Managers, having regard to the allocation policy outlined in Section 7.3.4, 7.4.4, 7.5.4 and 7.8.2 of this Prospectus.	Sections 7.3.4, 7.4.4, 7.5.4 and 7.8.2
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Section 9.5.1.1 for details of various fees payable by Adore Beauty to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers (on behalf of the Company).	Section 7.2
Are there any tax considerations for Australian investors?	Yes. Refer to Section 9.11 and note that it is recommended that all Shareholders consult their own independent tax advisers regarding the income tax (including capital gains tax), stamp duty and GST consequences of acquiring, owning and disposing of Shares, having regard to their specific circumstances.	Section 9.11
When will I receive confirmation that my Application has been successful?	It is expected that initial holding statements will be dispatched by standard post on or about Thursday, 29 October 2020. Refunds (without interest) to Applicants who make an Application and are scaled back (or otherwise receive Shares having a lesser value than the amount of Application Monies they have paid) will be made as soon as possible after Completion of the Offer.	Section 7.2
How can I apply?	Applicants under the Broker Firm Offer should follow the instructions provided by their Broker in relation to any application for Shares. Applicants under the Priority Offer may apply for Shares by following the instructions in their personalised invitation to participate in the Priority Offer. Applications under the Employee Gift Offer must be made by submitting the Employee Gift Offer Application Form in accordance with the instructions on the personalised invitation. To the extent permissible by law, an Application by an Applicant under the Offer is irrevocable.	Sections 7.3.2, 7.4.2 and 7.5.2
Where can I find more information about this Prospectus or the Offer?	All enquiries in relation to this Prospectus should be directed to the Adore Beauty Offer Information Line on 1800 628 703 (toll free within Australia) or +61 1800 628 703 (outside Australia) from 8:30am until 5:30pm (Melbourne time) Monday to Friday (excluding public holidays). All enquiries in relation to the Broker Firm Offer should be directed to your Broker. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.	Section 7.2
Can the Offer be withdrawn?	Yes. Adore Beauty reserves the right not to proceed with the Offer at any time before the issue of Shares to successful Applicants. If the Offer, or any part of it, does not proceed, Application Monies will be refunded. No interest will be paid on any Application Monies refunded as a result of the withdrawal of the Offer.	Section 7.10

Section 2.

Industry Overview



Section 2. Industry Overview

2.1. Introduction

Adore Beauty is a pureplay online retailer operating in the beauty and personal care industry. Its growth will be influenced by the performance of the e-commerce industry and the beauty and personal care market.

This Section 2 is intended to provide an overview of the Australian and New Zealand beauty and personal care markets. This Section 2 discusses the whole industry and is not specific to Adore Beauty. The information in this Section 2 has been partially derived from a market study by Frost & Sullivan that was commissioned for the purposes of the Offer.

2.2. Overview of the Australian e-commerce market

2.2.1. Overview of e-commerce and the Online Retail Market

Electronic commerce (**e-commerce**) describes a business model that enables individuals and companies to conduct a wide range of commercial transactions via the internet or a mobile app. E-commerce transactions can be conducted using any electronic device that has a connection to the internet, including computers, smartphones and tablets. Transactions that may occur through e-commerce include, but are not limited to, the buying and selling of digital or physical goods, internet banking and online auctions. The segment of the e-commerce market that relates to transactions involving the purchasing of goods and services is referred to as the “**Online Retail Market**”.

The main types of e-commerce transactions can be described by the following four models:

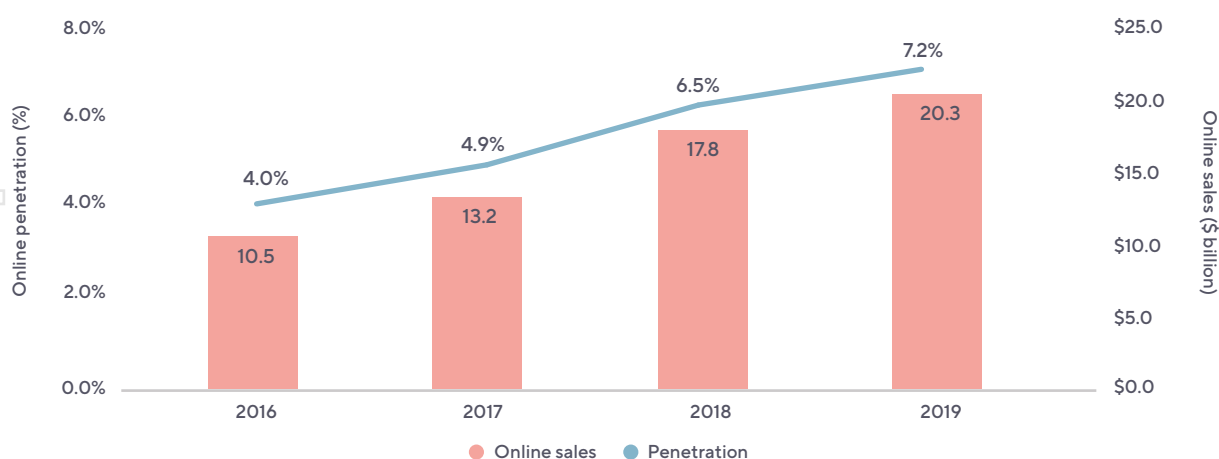
- business to business transactions (**B2B**) – where a business provides goods or services to another business;
- business to consumer transactions (**B2C**) – where a business provides goods or services to a consumer;
- consumer to consumer transactions (**C2C**) – where a consumer provides goods or services to another consumer; and
- consumer to business transactions (**C2B**) – where a consumer provides goods or services to a business.

Adore Beauty’s core operations involve B2C e-commerce transactions occurring in the Online Retail Market.

2.2.2. The Australian Online Retail Market (B2C)

In recent years, e-commerce has grown rapidly in Australia. Frost & Sullivan estimates that the Australian Online Retail Market has grown at a 24.6% CAGR over the last three years to CY19, totalling approximately \$20.3 billion.

Figure 1: Australian online retail market – market size (\$ billion) and online penetration (%)



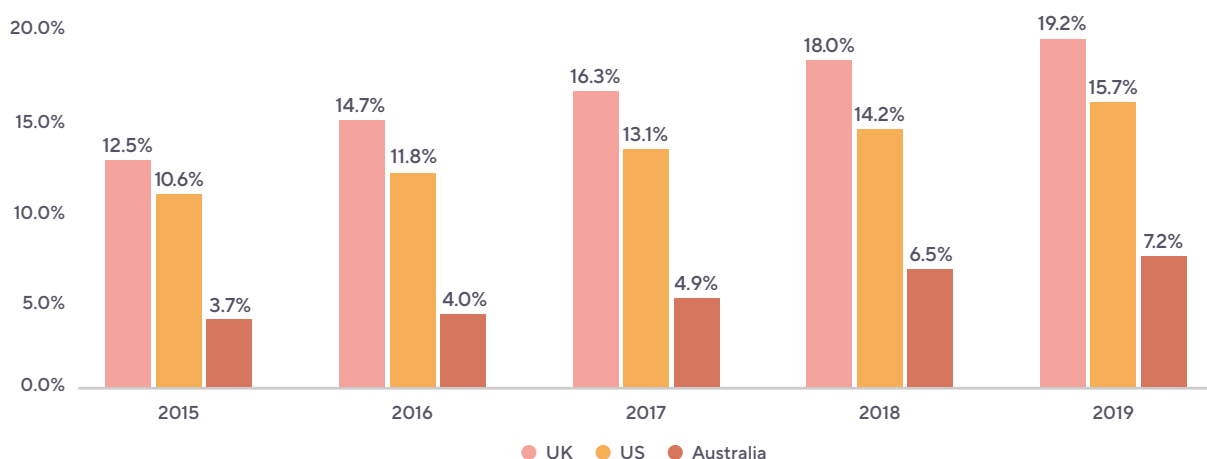
Note: Total Retail Market sales excludes cafes, restaurants and takeaway food.

Growth in the Australian Online Retail Market has been driven by an increased online penetration rate via a growing consumer acceptance of and use of online retail. This is illustrated by the Australian Online Retail Market sales representing a higher proportion of total retail sales in all channels (**Retail Market**) over time, increasing from 4.0% in CY16 to 7.2% in CY19.

The level of online penetration in Australia's retail market lags the United Kingdom (**UK**) and the United States (**US**). In the UK, online penetration rates represented 19.2% of total retail sales in CY19. Similarly, in the US, online penetration rates represented 15.7% of total retail sales in CY19. Australia's online penetration is likely currently lower than these jurisdictions due to several factors, including:

- heritage of retail catalogue shopping in the UK and US;
- more geographically dispersed populations in the UK and US; and
- greater innovation by UK and US retailers.

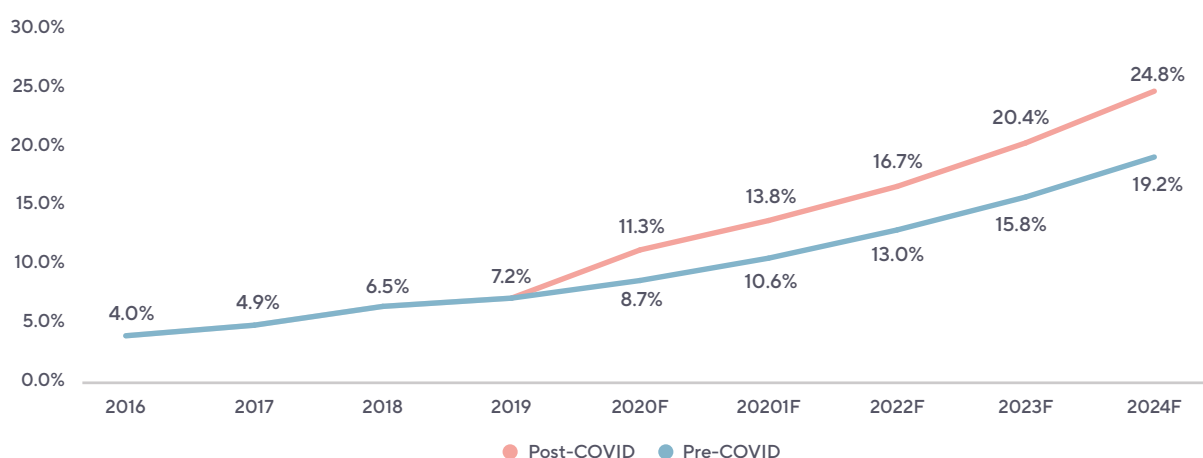
Figure 2: Australian Online Retail Market online penetration rates by country (%)



Note: US data is based on adjusted retail sales, excluding food service, automobile and other motor vehicle dealers and gasoline stations.

Prior to COVID-19, Frost & Sullivan had estimated that online penetration rates would reach 8.7% in CY20F and increase significantly to 19.2% by CY24F. However, as a result of COVID-19, Frost & Sullivan have estimated that this trend will likely be accelerated. This is due to a step change in the number of consumers using e-commerce in the lockdown periods throughout Australia, given the inability or lack of desire to visit bricks and mortar stores. It is forecast that customers that are introduced to e-commerce throughout the COVID-19 period are likely to remain active participants in the Online Retail Market after the COVID-19 period. This is most likely attributable to an increased familiarity with e-commerce platforms and a greater understanding of the potential benefits of e-commerce as compared to offline channels (refer to Section 2.2.3 for further details). As a result, Frost & Sullivan forecasts a structural shift in the Australian Retail Market due to COVID-19, estimating that online retail penetration will reach 11.3% by CY20F and 24.8% by CY24F.

Figure 3: Australian Online Retail Market online penetration rates – pre- and post-COVID-19 forecasts (%)



Section 2. Industry Overview

2.2.3. Australian Online Retail Market key drivers

2.2.3.1 Evolving consumer preferences and online retail innovation

Increasingly, consumers are accepting the use of online retail. In 2019, 13.8 million Australians purchased goods or services online in the preceding six months, which represented 78% of total internet users. The extensive use of e-commerce by consumers has likely been a result of:

- Increasing innovation from e-commerce retailers, resulting in a better customer experience – for example, utilising data-driven customer insights to personalise a customer's experience;
- An increase in the number of channels including social media platforms through which companies can market to customers and attract new consumers to their site;
- Increasing the breadth of product range available online;
- Improving delivery times, with same day deliveries possible in some instances, as well as "click and collect" capabilities;
- Flexible return policies;
- Greater convenience and accessibility of using e-commerce platforms relative to bricks and mortar stores;
- Increasing demand from customers for product information and desire to be informed of product inputs and ingredients;
- Access to customer reviews; and
- Discounting opportunities that are available online through marketing and promotion initiatives.

2.2.3.2 Internet access and network infrastructure

E-commerce transactions can be conducted through the use of any device that has an internet connection. In recent years, there has been an increasing number of internet users, specifically mobile internet users that primarily use smartphones. By CY19, 16.4 million Australians owned or used a smartphone, representing an increase of 3 million since 2015.

Furthermore, the underlying infrastructure supporting these devices has improved, becoming more reliable, faster and secure. Roll-outs of 4G and 5G networks are improving the user experience through mobile internet connections, which is driving internet speeds and reliability. The roll-out of the National Broadband Network (**NBN**), which covered 11.7 million homes and businesses by June 2020 (with 7.3 million connected) has also increased the user-experience for internet users.

2.2.3.3 New payment options

Buy-now-pay-later (**BNPL**) payment options, which allow customers to pay in instalments over time, are increasingly offered by both bricks and mortar as well as e-commerce retailers. However, BNPL payment options can be seamlessly integrated into online transactions. This financial flexibility and ease of use may encourage consumers to purchase more products online.

2.3. Overview of the Australian Beauty and Personal Care Market

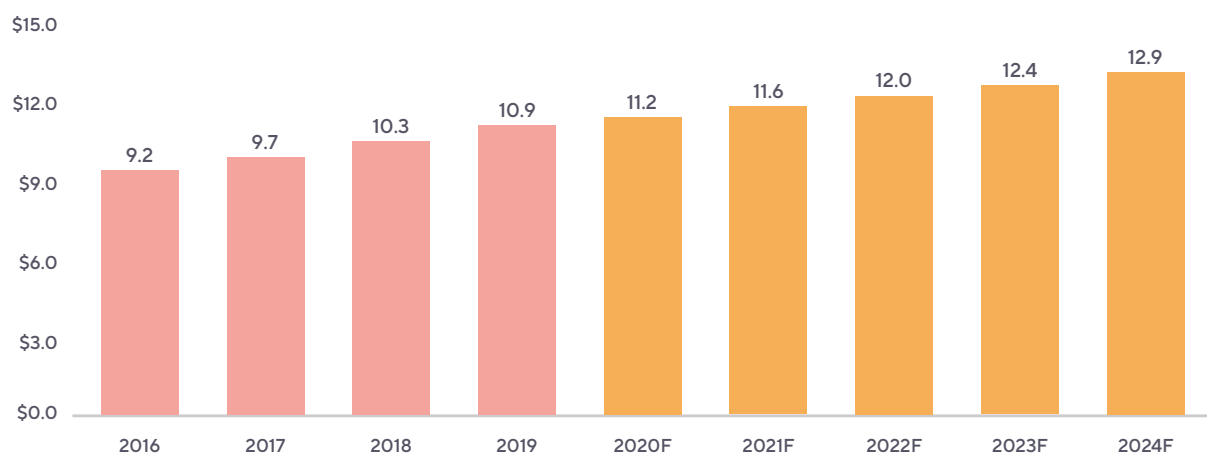
2.3.1. Australian beauty and personal care market overview

The beauty and personal care market (as defined in the report) is a large and growing market consisting of a range of categories, including skin care, hair care, body care, cosmetics, fragrances, oral care, men's grooming, electrical appliances, dietary supplements and sex products. Adore Beauty believes the classification of the beauty and personal care market by Frost & Sullivan accurately reflects the Company's addressable market in Australia.

Frost & Sullivan estimates that in CY19, the Australian beauty and personal care market (both offline and online) generated sales of approximately \$10.9 billion. Sales in this market are estimated to have grown at a 5.9% CAGR in current prices in the three years to CY19.

Frost & Sullivan considers the beauty and personal care market to be resilient and only moderately impacted by potential downturns in the broader Australian economy, given consumers' increased emphasis on health and self-care categories. Taking into account the broader economy, Frost & Sullivan estimates that the total Australian beauty and personal care market is expected to grow at a 3.6% CAGR over a four year period reaching a market size of \$12.9 billion in CY24F.

Figure 4: Australian beauty and personal care market - market size (\$ billion)

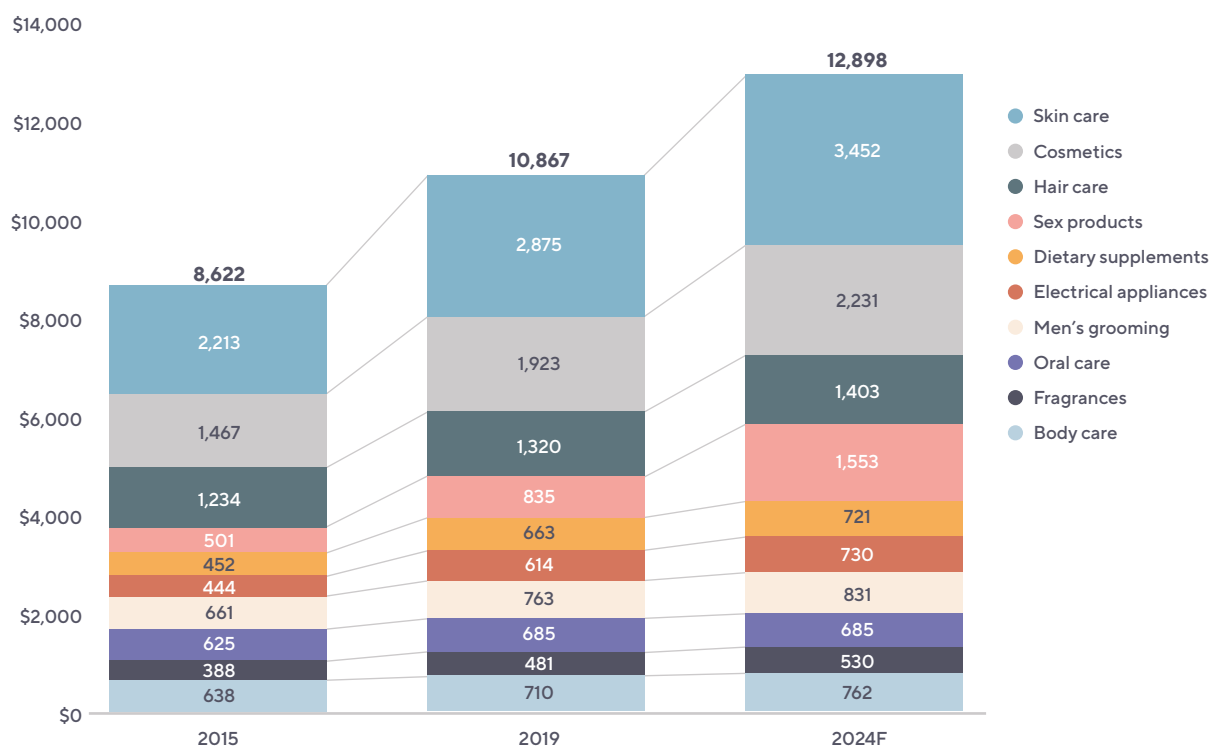


2.3.2. Product categories and product tiers

Product categories

As at CY19, the largest categories within the Australian beauty and personal care market include skin care (approximately 26.5% of the market, or \$2.9 billion), cosmetics (approximately 17.7% of the market, or \$1.9 billion) and haircare (approximately 12.1% of the market, or \$1.3 billion). These are the three largest product categories by revenue that Adore Beauty sells on its platform.

Figure 5: Australian beauty and personal care market - product segments market size (\$ million)



Section 2. Industry Overview

Skin care, cosmetics and hair care categories have experienced strong growth historically and continue to show strong category fundamentals that will support future growth in the broader Australian beauty and personal care market.

An underlying trend across all product categories historically has been the “premiumisation” of beauty and personal care products. Consumers are seeking effective solutions to their unique concerns and needs through the use of high quality ingredients. Further, consumers are increasingly focused on products that contain natural, organic, artisanal and environmentally-friendly qualities. Frost & Sullivan believes that this trend is likely to continue into the future.

Key categories and their respective category drivers are described below:

- **Skin care:** Skin care products grew at a CAGR of 6.8% between CY15 and CY19. The category is forecast by Frost & Sullivan to grow at a 3.7% CAGR over a five year period to CY24F to total sales of \$3.5 billion. There has been an increased focus by consumers on products that protect the skin, using more gentle and natural ingredients, particularly with hydrating and antioxidant ingredients. This is in light of increasing consumer awareness of potential sun damage from outdoor activities. Furthermore, Australia’s ageing population is driving increased interest in anti-ageing skin care products, as consumers look for products that help them appear younger. This momentum in consumers’ behaviour to focus on skin health has supported category growth for skin care products throughout the COVID-19 period.
- **Cosmetics:** Cosmetics products grew at a CAGR of 7.0% between CY15 and CY19, and is forecast by Frost & Sullivan to grow at a 3.0% CAGR over a five year period to CY24F to total sales of \$2.2 billion. The cosmetics category comprises a wide range of products that are suitable for consumers for particular occasions and everyday use. Social media influencers have played an important role in promoting cosmetics sales given their platform to educate and inform consumers. Furthermore, there has been a rise in “selfie” culture which has stimulated younger consumers in particular to try new cosmetic products, with the trend to look more “natural” by using cosmetic products that support this particular look.
- **Hair care:** Hair care products grew at a CAGR of 1.5% between CY15 and CY19, and is forecast by Frost & Sullivan to grow at a 1.2% CAGR over a five year period to CY24F to total sales of \$1.4 billion. The hair care category follows a similar trend to the skin care category, with consumers seeking to repair and protect their hair, along with achieving a natural and effortless look. This has resulted in a trend towards products with natural ingredients and product offerings that provide moisture and hydration.
- **Body care:** Body care products grew at a CAGR of 2.7% between CY15 and CY19, and is forecast by Frost & Sullivan to grow at a 1.4% CAGR over a five year period to CY24F to total sales of \$762 million. Category growth is expected to be supported by the increasingly hygiene-conscious consumer that engages in regular hand and body washing activities. Furthermore, as consumers become more environmentally aware, sales within this category have trended and will continue to trend towards products containing natural ingredients.
- **Dietary supplements:** Dietary supplement products grew at a CAGR of 10.0% between CY15 and CY19, and is forecast by Frost & Sullivan to grow at a 1.7% CAGR over a five year period to CY24F to total sales of \$721 million. Products in this category are focused on beauty, energy, immune, digestive and mood supplements. Historical and forecast growth is driven by factors such as increasing consumer awareness of health and wellbeing.
- **Men’s grooming:** Men’s grooming products grew at a CAGR of 3.7% between CY15 and CY19, and is forecast by Frost & Sullivan to grow at a 1.7% CAGR over a five year period to CY24F to total sales of \$831 million. There has been an increased focus by men on personal grooming and styling, driving recent historical and forecast growth.

Product tiers

Beauty and personal care products may be characterised as premium and mass-market. Product tiers are defined based on a combination of subjective and objective factors including product perception, price and distribution channels:

- **Premium:** A product is generally characterised as premium based on consumer and industry (e.g. retailers, distributors) perceptions of the product - specifically, when the majority of a surveyed sample of individuals perceive the product as being premium. In addition to subjective criteria, premium products are also typically priced at relatively higher price points within a category and are generally not subject to discounting. Premium products may also be characterised by distribution channels. Generally, premium products will be sold by limited and select distribution partners. Typical distribution channels for premium beauty and personal care products include omni-channel and pure-play online beauty and personal care specialists, and department stores. Premium products may include those from designer and luxury brands, or “cult” brands.

- **Mass:** Any product that is not characterised as a premium will generally be categorised as mass. A product that exhibits qualities associated with a premium product and is sold at a lower price point is generally referred to as a “masstige” product and falls within the mass tier. Typical distribution channels for mass beauty and personal care products include grocery stores, pharmacies and online generalist retailers.

Premium products are most prevalent in the cosmetics, fragrances and skin care categories. Fragrances have the highest composition of premium products within its category, with Frost & Sullivan estimating that 81% of CY19 sales relating to premium products. Cosmetics and skin care had a relatively lower composition of premium tier products, representing 41% and 48%, respectively, of CY19 sales.

Within the “premium” categorisation, Adore Beauty further subcategorises its products into prestige, professional and niche products. Within the “mass” categorisation, Adore Beauty stocks “masstige” products.

COVID-19

The COVID-19 pandemic has affected categories in the Australian beauty and personal care market in different ways, including:

- fewer social and travel opportunities resulting from lockdown measures negatively impacting cosmetics and fragrances;
- a shift away from cosmetics to skin care products as the pandemic has emphasised the need for consumers to focus on self-care and health; and
- consumers spending more time at home resulting in an increase in the use of essential products (e.g. body care).

Frost & Sullivan expect that the easing of social distancing restrictions is likely to create the following effects beyond the COVID-19 period:

- as consumers return to more public and social lifestyles, it is anticipated that consumers will return to beauty and personal care regimens that are more focused on appearance, promoting demand and creating opportunities in the cosmetics and fragrances categories;
- consumers are becoming more focused on hygiene with an effort by consumers to prevent the transmission of diseases in general, resulting in greater demand for hygiene-related products e.g. hand sanitiser, soap;
- an existing consumer trend to focus on skin health and appearance is likely to be accelerated by COVID-19 and create a lasting impact on demand for skin care products; and
- increasing consumer health and environmental-awareness has accelerated trends towards natural, organic and sustainable products.

2.3.3. Australian beauty and personal care market landscape

2.3.3.1 Overview of the Australian beauty and personal care retail landscape

While some brands are vertically integrated and are able to sell their own products directly to the customer, brands typically view retailers as important to market and distribute their product to the end customer. This is generally the case for international brands that do not have a physical footprint in Australia, but also may apply for brands that do not have a distribution capability of scale or who wish to diversify their distribution channels.

Beauty and personal care specialists typically have the broadest product range, with a focus on premium product offerings, whereas grocery and pharmacy players focus on mass market products.

Section 2. Industry Overview

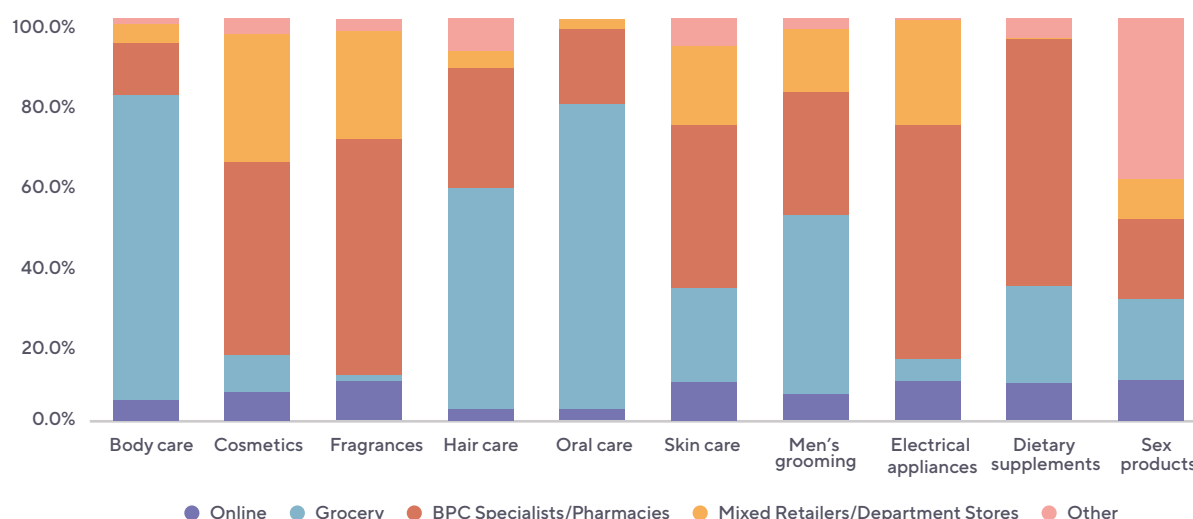
Figure 6: Overview of the Australian beauty and personal care retail landscape

Business model	Description	Examples
OMNI-CHANNEL	Grocery Product focus <ul style="list-style-type: none"> • Offer a limited range of mass market beauty and personal care products • Typically not focused on premium or niche brands or products Customer focus <ul style="list-style-type: none"> • Not focused on customer personalisation • “Big-box” store format • Convenient method to buy mass-market products as part of a customer’s regular shop Online capabilities <ul style="list-style-type: none"> • Traditionally focused on in-store offering; online shopping available 	<ul style="list-style-type: none"> • Coles • Woolworths
	Pharmacies Product focus <ul style="list-style-type: none"> • Health and wellbeing focused; also focused on beauty and personal care • Typically not focused on premium or niche brands or products • Typically compete on price Customer focus <ul style="list-style-type: none"> • Limited level of customer personalisation online Online capabilities <ul style="list-style-type: none"> • Traditionally focused on in-store offering; online shopping available 	<ul style="list-style-type: none"> • Priceline • Chemist Warehouse
	Department stores Product focus <ul style="list-style-type: none"> • Broad retail focus – not specifically focused on beauty and personal care • Mix of premium and mass products Customer focus <ul style="list-style-type: none"> • Limited level of customer personalisation online Online capabilities <ul style="list-style-type: none"> • Traditionally focused on in-store offering • Over recent years, have sought to build out online offering 	<ul style="list-style-type: none"> • David Jones • Myer
	Beauty and personal care specialists Product focus <ul style="list-style-type: none"> • Often vertically integrated; mix of global brands and own-brand product • Premium product offering • Deep beauty and personal care expertise Customer focus <ul style="list-style-type: none"> • Focus on loyalty programs and providing an in-store customer experience (e.g. product demonstrations) Online capabilities <ul style="list-style-type: none"> • Online shopping available; focus has traditionally been on in-store customer service and experience 	<ul style="list-style-type: none"> • Mecca • Sephora • Hairhouse Warehouse • Professional salons (hair and skin focused)

Business model	Description	Examples
ONLINE	Online beauty and personal care specialists Product focus <ul style="list-style-type: none"> • Broad beauty and personal care offering • Premium and niche product offering • Deep beauty and personal care expertise Customer focus <ul style="list-style-type: none"> • Aim to achieve highest level of personalisation through technology capabilities • Database of product reviews and recommendations • Focus on content to drive product discovery Online capabilities <ul style="list-style-type: none"> • Digital-native capabilities • Focus on providing a seamless transaction experience 	<ul style="list-style-type: none"> • Adore Beauty • Lookfantastic.com • Recreate Yourself
	Online generalist retailers Product focus <ul style="list-style-type: none"> • No specific beauty and personal care product focus or expertise • Typically compete on price Customer focus <ul style="list-style-type: none"> • Drop-shipping business models can result in customer orders with multiple items being delivered piecemeal Online capabilities <ul style="list-style-type: none"> • Digital-native capabilities 	<ul style="list-style-type: none"> • Amazon • Catch
	Online marketplaces Product focus <ul style="list-style-type: none"> • No specific beauty and personal care focus or expertise Customer focus <ul style="list-style-type: none"> • Focused on allowing individuals or other retailers to connect with buyers Online capabilities <ul style="list-style-type: none"> • Digital-native capabilities 	<ul style="list-style-type: none"> • Ebay

Frost & Sullivan estimates that, as at CY19, Beauty and Personal Care Specialists and Pharmacies are the largest channel for cosmetics, fragrances, skin care, appliances and dietary supplements.

Figure 7: Australian beauty and personal care market retail sales by channel (%)



Section 2. Industry Overview

2.3.3.2 Customers

Frost & Sullivan conducted a consumer survey with 1,011 consumers in Australia. Survey respondents had purchased beauty and personal care products online in the previous three months. The majority of survey respondents were female (78%). Consumers that are 18 years of age or older were surveyed, with the largest representation from consumers aged 35-44 years of age (25%) and 25-34 years (22%).

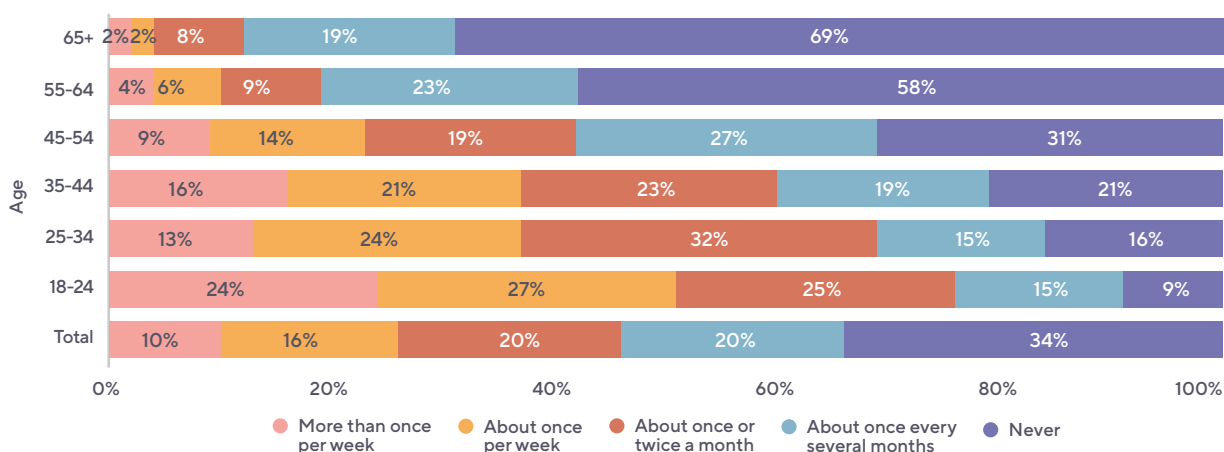
Average spend per online transaction

Across all age groups, survey respondents identified that they spend approximately \$86 per online transaction on average. The largest spending age groups per transaction are 35-44 years of age (\$114), 25-34 years of age (\$100) and 18-24 years of age (\$92).

Accessing beauty and personal care content

Consumers are frequently accessing beauty and personal care content for both educational and entertainment purposes. Approximately 26% of all survey respondents across all age groups identified that they would usually watch, read or listen to beauty and personal care content online at least once a week, and 46% of survey respondents accessed beauty and personal care content at least once a month. The consumers that access beauty and personal care content the most frequently are those aged 18-24 years (51% would usually access beauty and personal care content at least once a week), followed by those aged 25-34 years (37%) and 35-44 years (37%).

Figure 8: Frequency of accessing beauty and personal care content



Factors affecting consumers' behaviour for purchasing beauty and personal care products online

The four most influential factors that survey respondents identified that would encourage them to purchase new beauty and personal care products include: receiving free samples, receiving a recommendation from friends or family, reading positive reviews online and reading online advertisements.

Survey respondents also identified that the four most significant drivers that would encourage online spending on beauty and personal care products, compared to purchasing at bricks and mortar stores, include: free product delivery, discounts offered online, access to free samples and access to products that are not available in bricks and mortar stores.

COVID-19

Since the onset of the COVID-19 pandemic in Australia on around March 2020, the percentage of consumers using the online channel across all product categories increased by 16 basis points on pre-COVID-19 spending levels. The increase in online spending activity was the most prominent for skincare products, where the majority of survey respondents purchased their skin care products online throughout COVID-19 as opposed to bricks and mortar stores.

Once the COVID-19 pandemic is over, the percentage of survey respondents that believed that they would be more likely to shop online for all categories of beauty and personal care products compared to their pre-COVID-19 spending levels increased by an average of 11 basis points. Survey respondents have the highest propensity to shop online for skin care, hair care and cosmetics product categories once the COVID-19 pandemic is over.

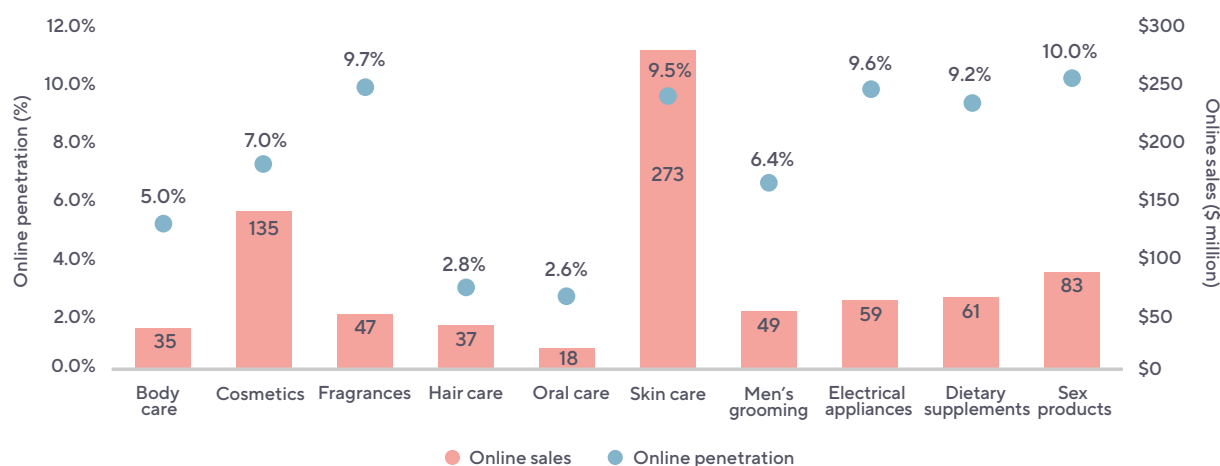
2.4. Overview of the Australian Online Beauty and Personal Care market

2.4.1. Online penetration rates and the Australian online beauty and personal care market

As estimated by Frost & Sullivan, the Australian online beauty and personal care market has achieved online penetration of 7.3% of the total Australian beauty and personal care market for CY19. Accordingly, Frost & Sullivan has estimated that the market size of the Australian online beauty and personal care market is \$797 million for CY19.

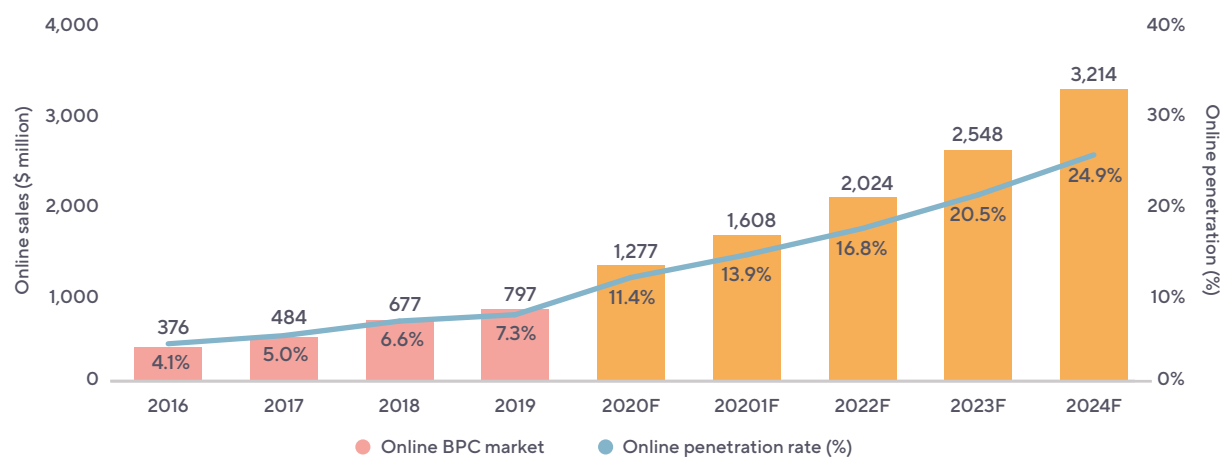
Figure 9 illustrates the online penetration rates by category in the Australian beauty and personal care market. In CY19, online penetration was the highest in sex products (10.0%), fragrances (9.7%), appliances (9.6%) and skin care (9.5%). The lowest online penetration was in oral care (2.6%) and hair care (2.8%).

Figure 9: Australian online beauty and personal care market – category market size (\$ million) and online penetration rate (%)



Frost & Sullivan estimate that the beauty and personal care online penetration rate will increase to approximately 24.9% by CY24F. Frost & Sullivan estimates that this market will grow at a 26.0% CAGR in current prices in the four years to CY24F, resulting in a market size of approximately \$3.2 billion. This estimate takes into account the potential impact of COVID-19.

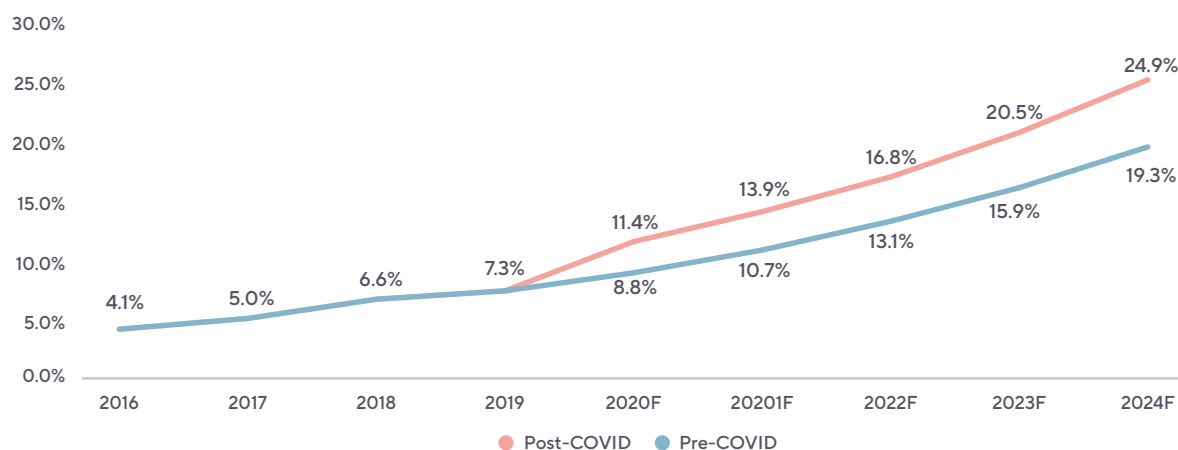
Figure 10: Australian online beauty and personal care market – market size (\$ million) and online penetration rate (%)



Section 2. Industry Overview

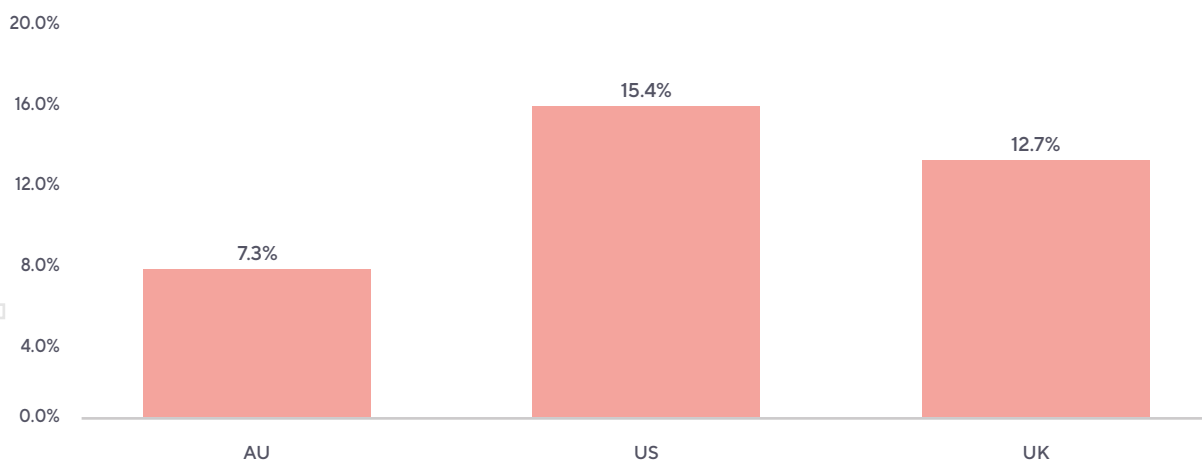
Prior to COVID-19, Frost & Sullivan had estimated that online penetration rates would reach 8.8% in CY20F and increase to 19.3% by CY24F, as illustrated in Figure 11.

Figure 11: Australian online beauty and personal care retail market online penetration rates – pre- and post-COVID-19 forecasts (%)



Frost & Sullivan research illustrates that the Australian beauty and personal care market has a relatively low online penetration rate compared to other developed markets globally, including the US and the UK. The US online penetration rate in the beauty and personal care segment was estimated by Frost & Sullivan at 15.4% in CY19, which is more than double that of Australia over the same period of time. Penetration in Australia is also significantly behind the UK, which is at 12.7% over this same period of time. This highlights the potential market growth for the Australian online beauty and personal care market.

Figure 12: Beauty and personal care market online penetration rates by country for CY19 (%)



2.4.2. Australian online beauty and personal care market drivers

There are a number of reasons why Australian consumers are increasingly choosing to buy beauty and personal care products online. These include:

- **Improving online customer experience:** including ease of purchasing process, access to personalised content and recommendations not available instore;
- **Broad range of brands and products available:** including premium, niche and international products not readily available instore;
- **Reduced online purchasing risk:** reliability of the delivery network, improved online credit card transaction capabilities and increasing ability to return products easily; and
- **COVID-19:** changing shopping behaviours and preferences driven by government mandated restrictions (including lock downs or social distancing measures) and consumer aversion to physically visiting retailers due to health concerns.

2.5. Factors affecting entry into the Australian online beauty and personal care market

A number of dynamics and attributes in the Australian online beauty and personal care retail market benefit certain existing market participants. While these factors may represent competitive advantages to incumbent or established retailers, they are also factors faced by existing players when attempting to win market share from competitors.

- **Relationship with customers:** The beauty and personal care market is predicated on trust by consumers, given that consumers purchase beauty and personal care products to address their specific concerns and needs. A competitive advantage may be developed by forming a relationship with customers so that customers treat the platform as a reliable and trusted destination. For example, a retailer may form a relationship with customers by providing informative and educational content about products to help customers make an informed purchase.
- **Exclusivity of brand distribution:** Competing retailers may be unable to sell a particular brand if the brand is under exclusivity arrangements with another retailer. A lack of brands within an online retailer's portfolio may reduce the attractiveness of the platform as a shopping destination relative to a competing online beauty and personal care e-commerce platform, in particular for brands that have a selective distribution strategy.
- **Data availability:** A retailer is able to provide a more personalised experience for brands and customers based on insights regarding brand ranking, promotion effectiveness and customer purchases. Retailers of scale that are able to utilise their data and insights in a meaningful way could potentially provide a better experience for brands and customers, relative to other retailers.
- **Relationship with suppliers:** Stronger relationships with brands support sales growth in retailers where they see high demand, by providing financial support for promotions, brand discounts and marketing. Supplier relationships allow for greater flexibility and responsiveness by retailers to manage their inventory levels to meet customer demands.
- **Large customer base:** An online beauty and personal care retailer that has a large and engaged customer base is attractive to suppliers as it provides them with a broader customer reach and therefore greater sales potential, compared to a customer base that is smaller or is relatively less engaged. It is difficult for a new entrant to replicate a valuable customer base organically, given that it is generally developed over time as the company's product offering and brand reputation evolves.

2.6. Overview of the New Zealand Online Retail Market

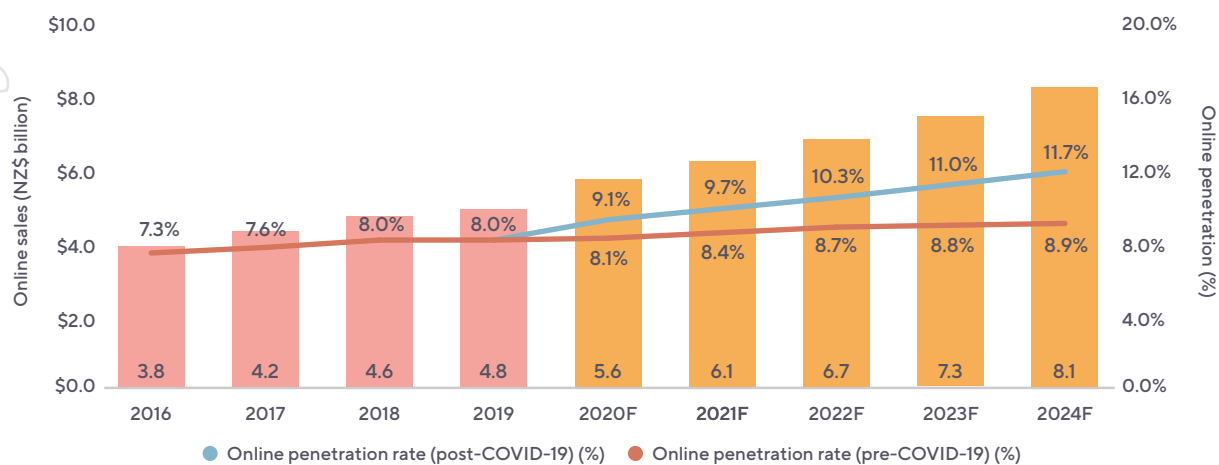
Frost & Sullivan estimates that the New Zealand Online Retail Market has grown at a 8.6% CAGR over the last three years to CY19, totalling approximately NZ\$4.8 billion in 2019. This equates to an online penetration rate of the New Zealand Retail Market of 8.0% for CY19.

Frost & Sullivan forecasts that the New Zealand Online Retail Market will grow to approximately NZ\$8.1 billion by CY24F, with online penetration rates increasing to 11.7% after taking into consideration the potential impacts of COVID-19 on the New Zealand Retail Market. While online penetration rates in New Zealand are expected to grow, Frost & Sullivan believes that it will grow at a relatively slower rate than Australia's online penetration rate because of the following:

- In December 2019, GST was applied to online retail purchases from overseas retailers for transactions valued at NZ\$1,000 or less, which may have the effect of deterring consumers from purchasing internationally; and
- While COVID-19 caused an increase in online sales in New Zealand, the country's COVID-19 restrictions and lockdown period were significantly shorter than Australia's.

Section 2. Industry Overview

Figure 13: New Zealand Online Retail Market - market size (NZ\$ billion) and online penetration rate (%)



Note: New Zealand Retail Market sales exclude accommodation, food and beverage services, motor vehicles and parts, and fuel.

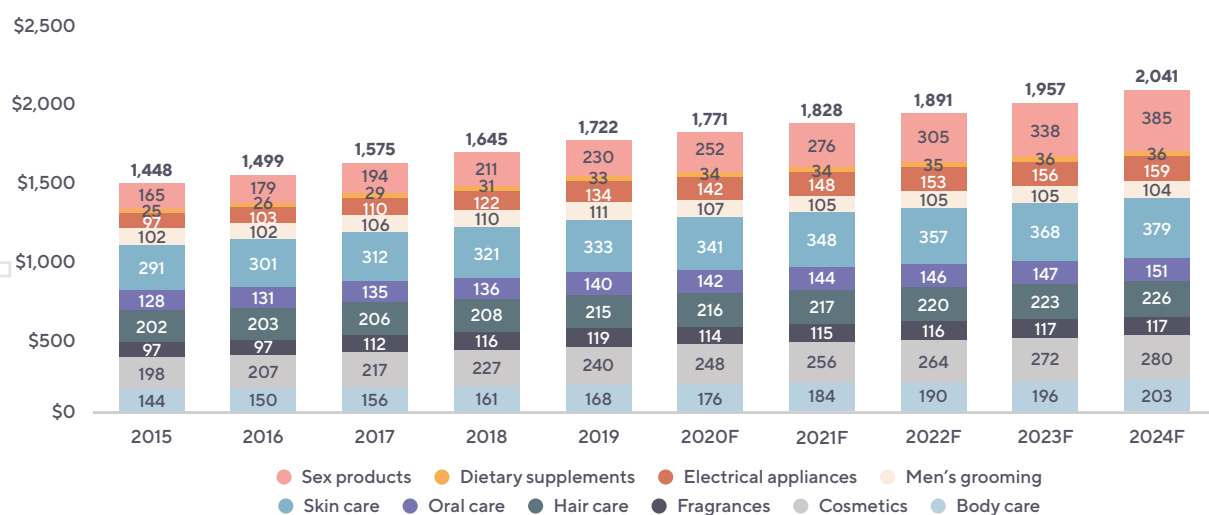
2.7. Overview of the New Zealand online beauty and personal care market

2.7.1. New Zealand Beauty and Personal Care Market

In CY19, the New Zealand beauty and personal care market was NZ\$1.7 billion. By CY24F, the market is forecast to grow at a 3.6% CAGR over a four year period to reach NZ\$2.0 billion.

The majority of categories are forecast to grow through to CY24F and are expected to exhibit similar growth trends to those categories in the Australian beauty and personal care market.

Figure 14: New Zealand beauty and personal care market – market size (NZ\$ million)

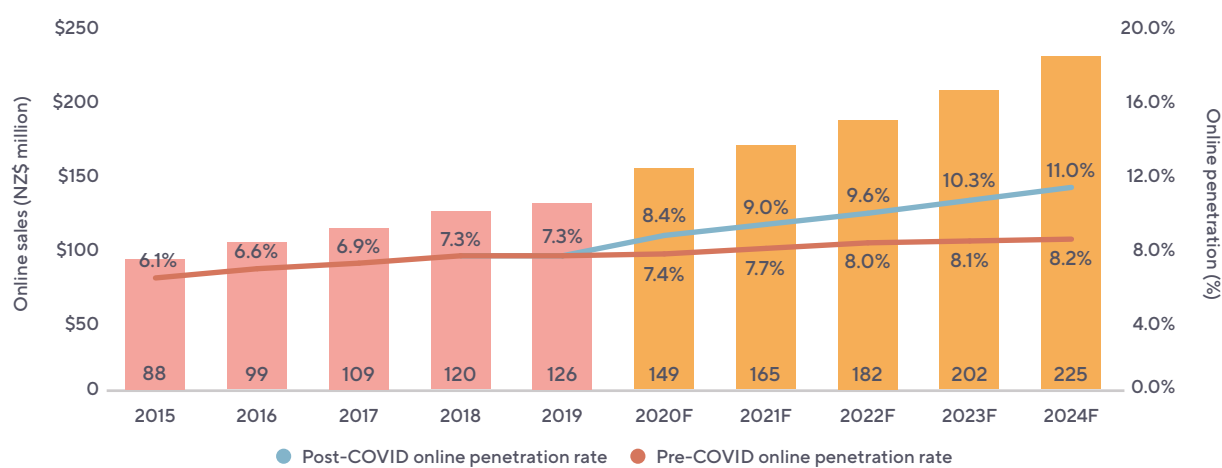


2.7.2. New Zealand Online Beauty and Personal Care Market

In CY19, the overall online penetration rate in the New Zealand online beauty and personal care market was 7.3%, with the online beauty and personal care market totalling NZ\$125.3 million. Over this period of time, online penetration was highest in fragrances (13.8%) and cosmetics (13.0%). Online penetration is low in hair care and oral care (both are less than 2%).

By CY24F, following COVID-19, online penetration is forecast to reach 11%, resulting in a market size of approximately NZ\$225 million. This is compared to a pre-COVID-19 estimate of online penetration rates, which was previously forecast to reach 8.2% by CY24F.

Figure 15: New Zealand online beauty and personal care market - market size (NZ\$ million) and online penetration rate (%)



Section 3.

Company Overview



3.1. Introduction to Adore Beauty

Adore Beauty is Australia's number one pureplay online beauty retailer.¹ Its 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.

Adore Beauty has a customer-centric and brand-agnostic approach to doing business.

Adore Beauty is distinguished in the beauty category as a data-enriched integrated content, marketing and e-commerce retail platform that partners with beauty and personal care brands to introduce customers to a large range of products to suit a variety of needs and preferences. The Company generates its revenue through online sales of third-party beauty and personal care products to Australian and New Zealand consumers.

The Company's business model is centred on three key components:

- Maintaining **range authority**, by offering customers a broad range of products across prestige, professional, niche and masstige brands;
- Delivering an **outstanding online transaction experience**; and
- **Data-enriched customer engagement**.

The Company's operations are supported by its scalable infrastructure and technology platform, and a workforce of 183 employees.

Adore Beauty has experienced strong growth over the past decade, underpinned by a successful track record in customer acquisition and retention. The Company had over 590,000 Active Customers as at 30 June 2020. "**Active Customers**" is defined as customers who have purchased a product from Adore Beauty over the last 12 month period.

The Company has been consistently recognised as one of Australia's leading online retailers. Adore Beauty's aspiration is to transform the beauty shopping experience and drive online penetration to own the beauty category in Australia and New Zealand, and be the pre-eminent online destination for a broad selection of premium beauty, wellness, personal care products across skin, hair, make up, accessories and close adjacencies.

3.2. Company history

Adore Beauty is an entrepreneurial business with a 20 year history. In 2000, Kate Morris and James Height started Australia's first beauty e-commerce site from a garage in Melbourne. The Company began by partnering with local brands and eventually signed Adore Beauty's first international brand, Clarins, in 2006. Adore Beauty developed its identity as a trusted, reputable online retailer of beauty products over time as it continued to partner with leading beauty brands globally. In 2014, the Company was one of the first pureplay online retailers globally to sign a distribution contract with Estee Lauder Brands.

Over time, Adore Beauty has evolved into an integrated content, marketing and e-commerce retail platform in order to better meet customer needs. In 2016, Beauty IQ was launched in its current form, which is Adore Beauty's in-house editorial content platform including beauty news, reviews, tips and expert how-to articles to educate the customer to make empowered purchasing decisions.

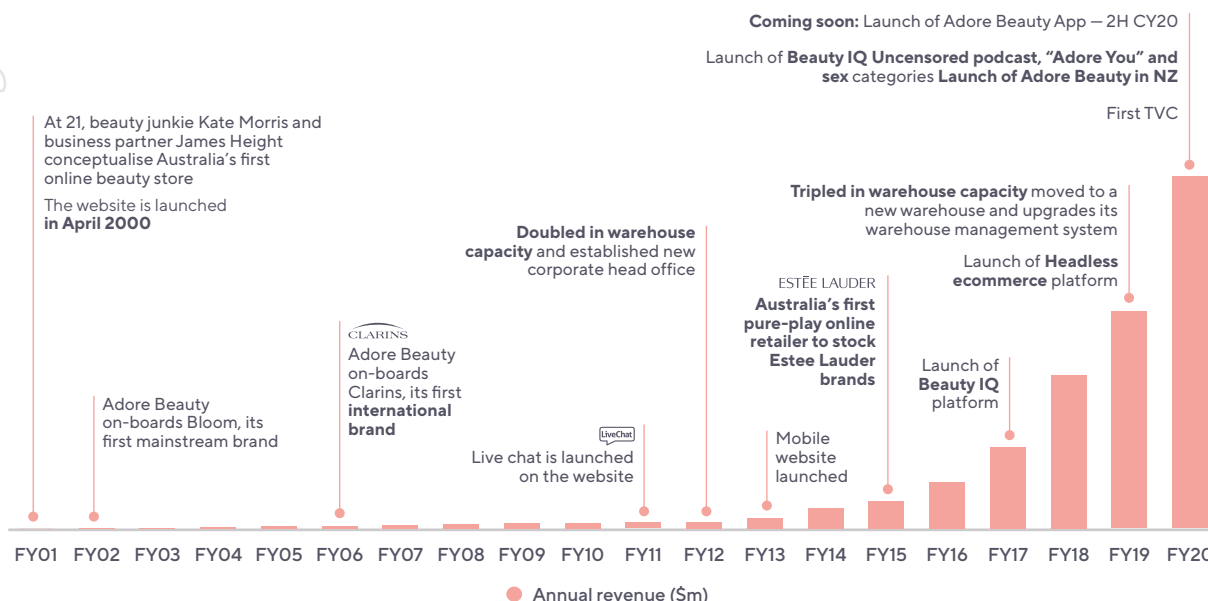
Adore Beauty has continued to invest to support its growth, by moving to a new warehouse and upgrading its warehouse management system in 2018.

The Company launched its dedicated New Zealand website in 2019.

1. Management estimates based on third party industry reports (2019, 2020), third party supplier data (2019), third party and internal customer data (2019, 2020), third party website traffic data (2020).

Section 3. Company Overview

Figure 16: Company history



3.3. Adore Beauty's customers

3.3.1. User overview

Adore Beauty estimates that between January 2020 and June 2020, of its website user base:

- approximately 78% are female;
- 25 to 30 year olds represent the largest category of the user base, comprising approximately 37%. 18 to 24 year olds and 35 to 44 year olds comprise approximately 21% and 17%, respectively, of the user base; and
- approximately 93% are Australian.

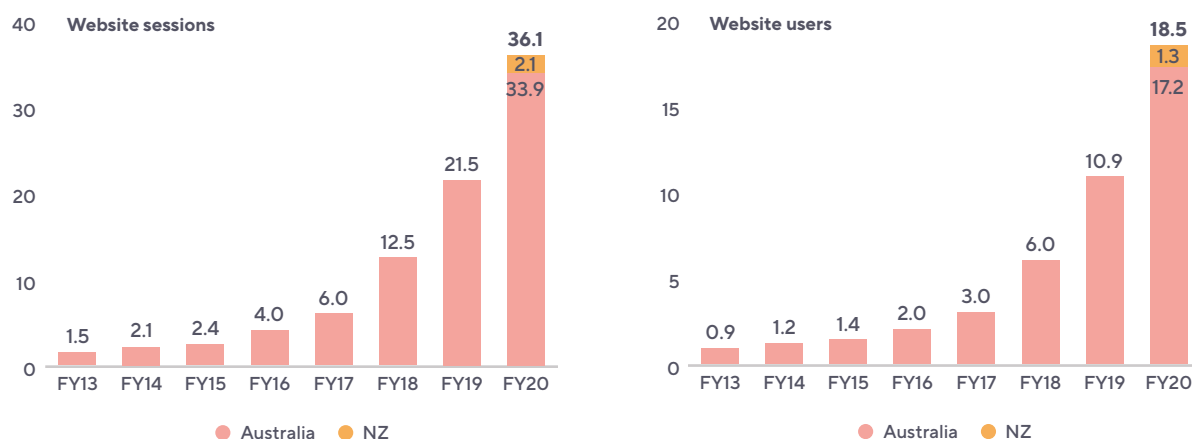
3.3.2. Adore Beauty's website users and Active Customer base

3.3.2.1 Large and growing website users and Active Customer base

Adore Beauty has experienced strong growth in website sessions, website users and active customers over time.

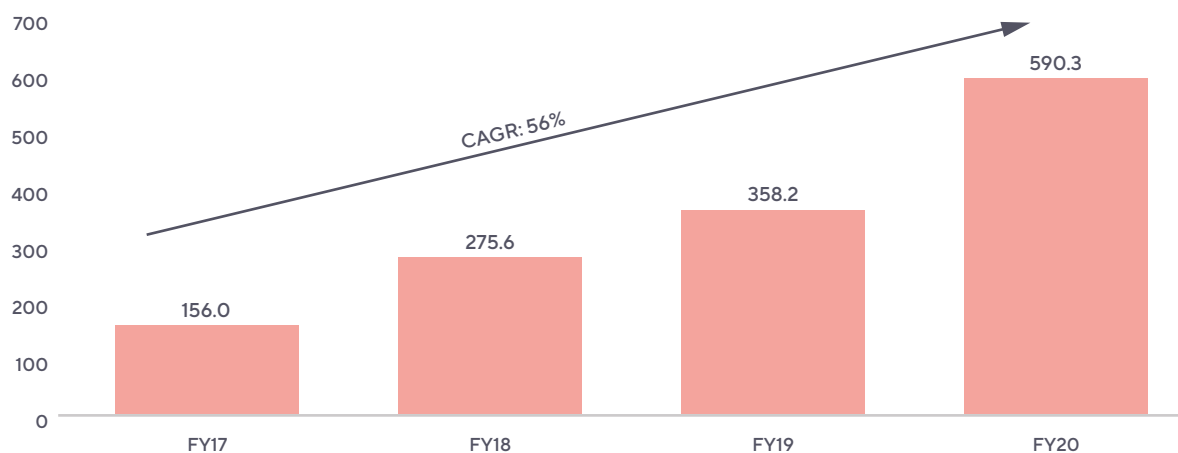
Adore Beauty had approximately 18.5 million website users over the FY20, with the majority of users originating from Australia.

Figure 17: Website sessions and website users (million)



By improving Adore Beauty's customer proposition and focusing on high quality customer service over time, the Company has attracted and retained a large and loyal active customer base, having grown by 278% over the past four years to over 590,000 Active Customers today.

Figure 18: Active Customers ('000)



Note: Active Customers are defined as customers who have purchased a product from Adore Beauty over the last 12 month period.

3.3.2.2 Adore Beauty's customer base becomes more valuable over time

Adore Beauty has a proven ability to attract, profitably acquire, retain and increase customer value over time.

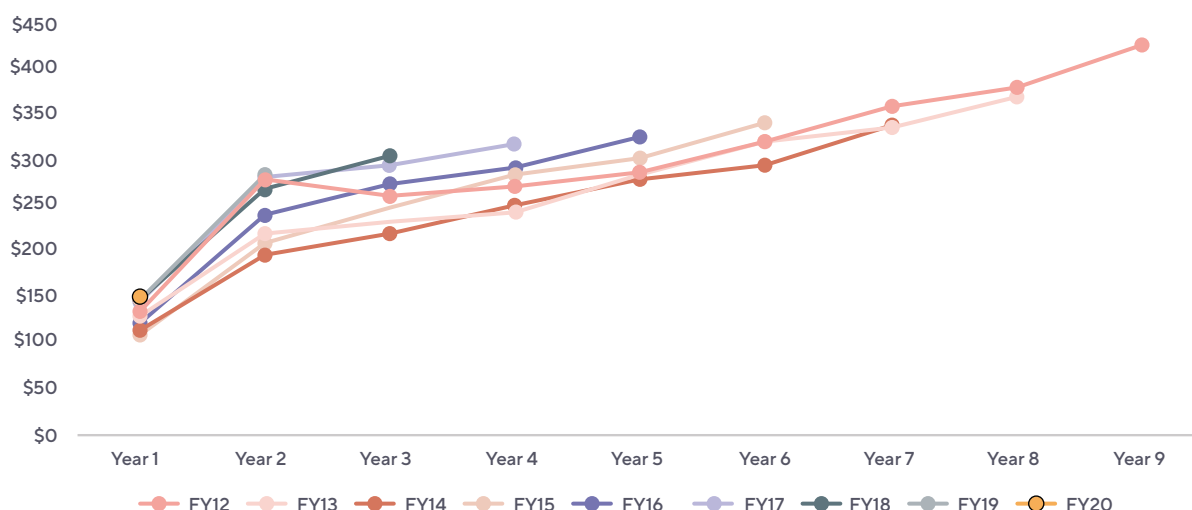
Average revenue per Active Customer

Adore Beauty believes that the evolution of its average revenue per Active Customer by cohort demonstrates the Company's increasing value proposition with customers. This highlights that, for the customers that are returning to the platform, they are on average spending more in subsequent years. Adore Beauty's customers are included in cohorts described below based on the financial year in which the customer places its first order with Adore Beauty.

Figure 19 illustrates revenue per Active Customer by cohort from FY12 through to FY20. For example, it shows that within the FY16 cohort, Active Customers spent on average approximately \$241 in FY17, representing their second year as Adore Beauty customers (i.e. the first full year that those customers have been with the Company). By FY20 (i.e. the FY16 cohort's fifth year), Active Customers in the FY16 cohort spent on average approximately \$327, or approximately 1.4x of their spend in their second year. This is a trend that appears to be consistent across each of the cohorts, where average revenue per Active Customer tends to grow as cohorts mature. This is most apparent within the FY13 cohort, where in FY20, customers in that FY13 cohort spent on average \$371 per Active Customer, or 1.7x the spending in their second year in FY14.

Adore Beauty believes that this trend is a result of its customer-centric business model, described in further detail in Section 3.4. Adore Beauty's customers become more valuable over time as customers tend to increase their order frequency and order value.

Figure 19: Average revenue per Active Customer by cohort (\$)



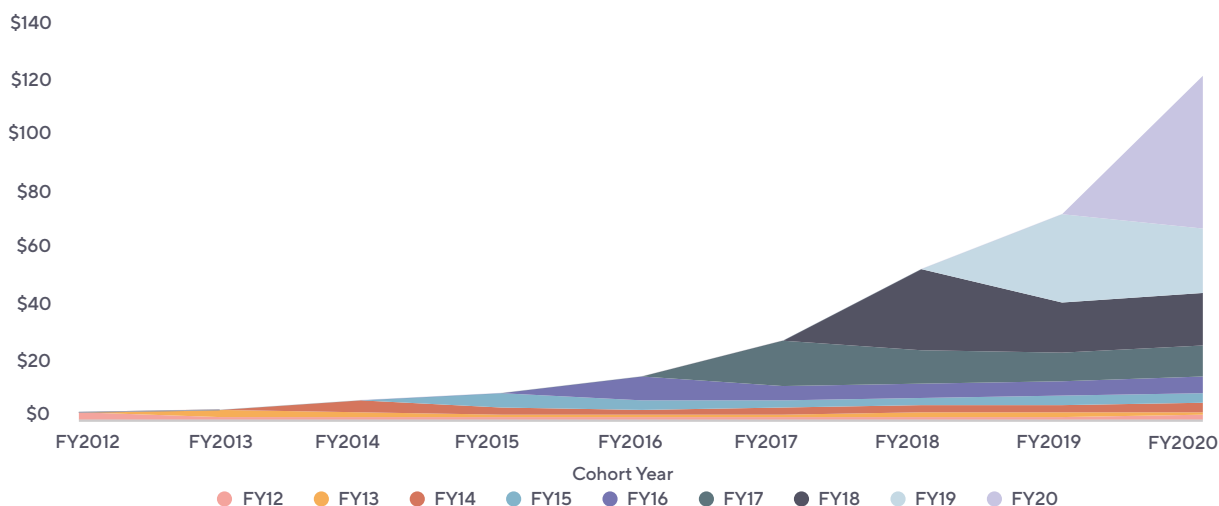
Note: Calculated based on average values of existing cohorts in each retention year. Y1 refers to first year the cohort was acquired. Cohort vintages based on FY12-20 acquired cohorts.

Section 3. Company Overview

Revenue contribution by cohort

Figure 20 illustrates annual revenue by cohort since FY12 through to FY20. Consistent revenue contribution by cohorts over time demonstrates the long-term value that returning customers represent to Adore Beauty following their initial purchase.

Figure 20: Revenue contribution by cohort (\$ million)



Customer Lifetime Value (LTV) and Customer Acquisition Cost (CAC)

In determining how successful Adore Beauty's customer acquisition and engagement strategy is, the Company closely monitors the initial CAC, contribution margin and lifetime value of its customer cohorts.

These performance indicators enable Adore Beauty to assess the strength of the short-term and long-term customer unit economics and make decisions in terms of advertising spend allocation. These metrics are explained as follows:

- Customer Acquisition Cost (**CAC**) represents the cost of acquiring a customer (i.e. total advertising expense) over a period of time per new customer acquired during that period.
- Lifetime Value (**LTV**) represents the amount of value that a customer has generated over time. Adore Beauty measures LTV with respect to a cohort of customers (i.e. all customers who placed their first order with Adore Beauty in a particular financial year). It is calculated as the cumulative contribution margin generated from the relevant customer cohort, net of customer churn for that cohort (i.e. as some customers cease purchasing over time) over time.
- Contribution margin is defined as gross margin less bank and merchant fees, which are each calculated as a percentage of sales based on each financial year, and applied to revenue of the customer cohort.

Figure 21 illustrates the ratio between LTV to CAC for Adore Beauty's FY18, FY19 and FY20 customer cohorts for one, two and three years following their initial acquisition. A ratio of 1.0x indicates that a customer cohort's LTV is equal to its initial CAC; a ratio above 1.0x reflects that a customer cohort's LTV exceeds its initial CAC.

The below chart demonstrates that, for the FY18, FY19 and FY20 cohorts analysed, the average CAC in each cohort is recovered within one year of acquiring the customer, and continues to grow over time. For example, the LTV of the FY18 cohort in FY20 was 4.6x higher than the average CAC of this cohort.

Figure 21: LTV/CAC ratio (FY18, FY19 and FY20 customer cohorts)



3.4. Adore Beauty's business model

3.4.1. Overview

Adore Beauty is an integrated content, marketing and e-commerce retail platform that partners with beauty and personal care brands to introduce customers to a large range of products to suit a variety of needs and preferences. Adore Beauty has a unique customer value proposition.

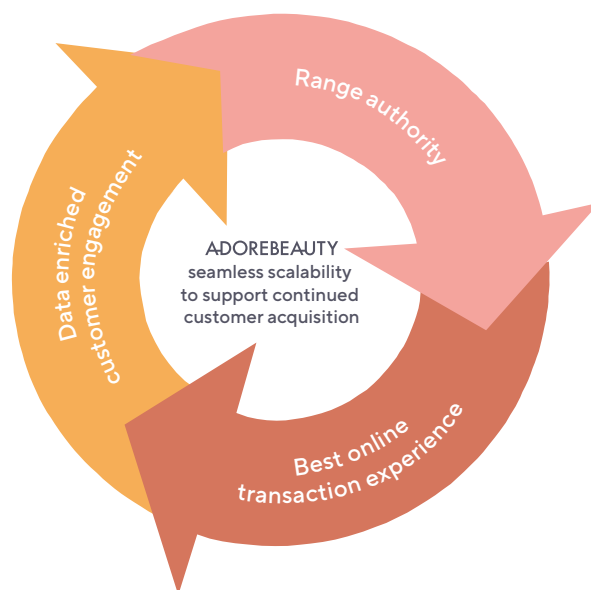
As illustrated in Figure 22, Adore Beauty's business model is based on three key elements which drive a powerful network effect attracting new customers and new brands to the platform. Adore Beauty's business model is described below, with the bold text indicating the Company's defensible competitive moat:

1. Range authority	<ul style="list-style-type: none"> Adore Beauty offers a broad and compelling product range in Australia and New Zealand across prestige, professional, niche and masstige beauty and personal care brands. 230+ brands and 11,000+ products (including exclusives). Beauty destination: Provides brands with access to a large, engaged customer base and strong marketing platform. For more information, please refer to Section 3.4.2 of this Prospectus.
2. Best online transaction experience	<ul style="list-style-type: none"> Instant gratification through live expert chat, seamless experience and fast delivery. AI-led personalisation and recommendations. Live chat customer service from trained advisors with no sales targets. Best-in-class delivery times, free express shipping (orders over \$50), 90 day return policy. Fast dispatch times and 99.99% pick accuracy.² Value-adds, promotions, samples and benefits, free Tim Tam with every order. For more information, please refer to Section 3.4.3 of this Prospectus.
3. Data enriched customer engagement	<ul style="list-style-type: none"> Engaging customers through and integrated content, marketing, and e-commerce retail platform, with personalisation to satisfy customer's beauty and personal care needs, driving loyalty and increasing their frequency and size of spend with Adore Beauty over time. Customer-led engagement (Beauty IQ, rich content, etc.). Editorial content represents knowledgeable recommendations and product selections, delivered in a differentiated authentic style. Education to support decision-making. Increasing basket size and high repeat purchase. For more information, please refer to Section 3.4.4 of this Prospectus.

2. Pick accuracy rate based on proportion of customer returns for pick and pack errors (being 0.01% of orders).

Section 3. Company Overview

Figure 22: Adore Beauty's reinforcing flywheel ecosystem



3.4.2. Range authority

Adore Beauty believes that customers are attracted to the Company because of the quality and breadth of the range it has curated. The Company is able to maintain a strong and diverse portfolio of products because brands value access to Adore Beauty's growing and loyal customer base.

3.4.2.1 Premium brand portfolio

Adore Beauty is a stockist of global and domestic beauty brands with category verticals including skincare, make up, hair care, fragrance and wellness. It offers a broad and diverse portfolio of over 230 brands and 11,000 products, comprising a range of prestige, high-end department store brands, professional salon brands, "cult" and niche brands, and masstige brands. Within this portfolio, 45 brands are under either channel, exclusivity and/or restraint operation arrangements with Adore Beauty. Brands under exclusivity arrangements comprised approximately 22% of Adore Beauty's revenue in FY20. This distinctive retail offering has established Adore Beauty's identity as a premium retailer that is able to fulfil a diverse range of needs of beauty and personal care consumers.

Figure 23: Select brands from Adore Beauty's product portfolio

Skincare	     
Hair	    
Make-up	     
Wellness and fragrances	 

Adore Beauty's largest category of sales is skincare, which represents 40% of brands on the platform and 57% of the portfolio by revenue in FY20. Frost & Sullivan estimates that skincare is the largest category in the Australian beauty and personal care market by category sales in CY19, with further growth expected in the coming years. Over the COVID-19 period, Adore Beauty has seen skincare products outperform other categories. Skincare is a core strength and focus of Adore Beauty's business, whereas other large players in the Australian beauty and personal care market have a focus on make up. Frost & Sullivan estimates that hair products are the third largest category by CY19 sales. These two product categories combined contribute the most revenue to Adore Beauty.

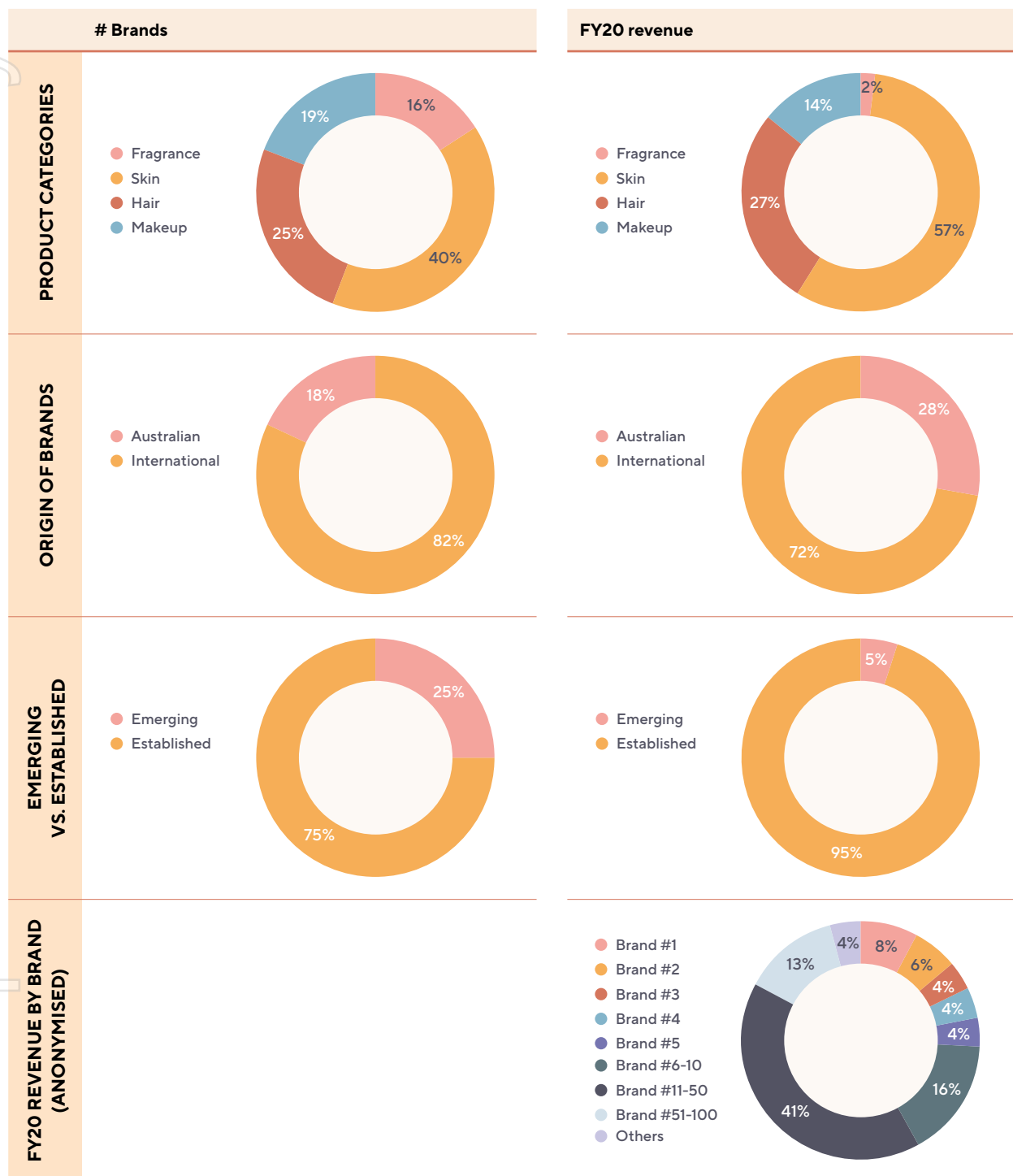
The Company has a large and diverse portfolio of brands, with the top 10 and top 50 brands by revenue, representing 40% and 81% of FY20 revenue, respectively.

International brands comprise the majority of Adore Beauty's portfolio, representing 82% of the total number of brands and represent 72% of FY20 revenue. Adore Beauty is seeking to on-board more international brands as consumers continue to show appetite for new brands from around the world.

Furthermore, Adore Beauty's revenue is underpinned by a stable and wide range of established brands, representing 75% of the total number of brands in the portfolio. This is complemented by significant growth from emerging brands which represents the remaining 25% of brands.

Section 3. Company Overview

Figure 24: Adore Beauty's brand portfolio statistics



Note: Based on brands within Adore Beauty's portfolio as at 31 August 2020 that have generated revenue in the FY20 period and are not discontinued or to be discontinued as at this date.

3.4.2.2 Strong, value-add partnerships with brands

Brand partnership model

Adore Beauty has a successful track record of on-boarding new brands onto its platform and building strong, value-add partnerships. Adore Beauty targets brands that it believes match the Company's identity based on strategic alignment and suitability, and whether the brand would be desired by the Company's customers.

The on-boarding process typically takes between three to six months. Adore Beauty continues to develop its brand portfolio at a rapid rate, with 51 brands on-boarded in CY19 and 22 brands on-boarded in CY20YTD. The Company also off-boards brands from time to time, depending on criteria such as the brand's revenue performance on Adore Beauty's platform.

Adore Beauty assists brands on its platform by providing information such as sales performance reviews, forecasting and discussions around opportunities to enhance brand exposure through Adore Beauty's content platforms including Beauty IQ articles, Adore Beauty's video channels, Beauty IQ Uncensored Podcasts and social media campaigns and initiatives. Brands are assigned a dedicated Category Manager from Adore Beauty to collaborate with on a regular basis, and receive monthly brand performance rankings and sell-through reports at a product level.

From time to time, Adore Beauty may enter into exclusivity arrangements with certain brands. These arrangements typically take the form of channel exclusivity or restraint of trade agreements within Australia. The length of the exclusivity and/or restraint operation arrangements are negotiated with brands on a case-by-case basis. At 30 June 2020 there are 45 brands under various exclusivity arrangements with Adore Beauty.

Brand value proposition

All brands on Adore Beauty's platform receive access to Adore Beauty's growing and highly engaged beauty and personal care customer base and one of Australia's largest proprietary beauty data sets.

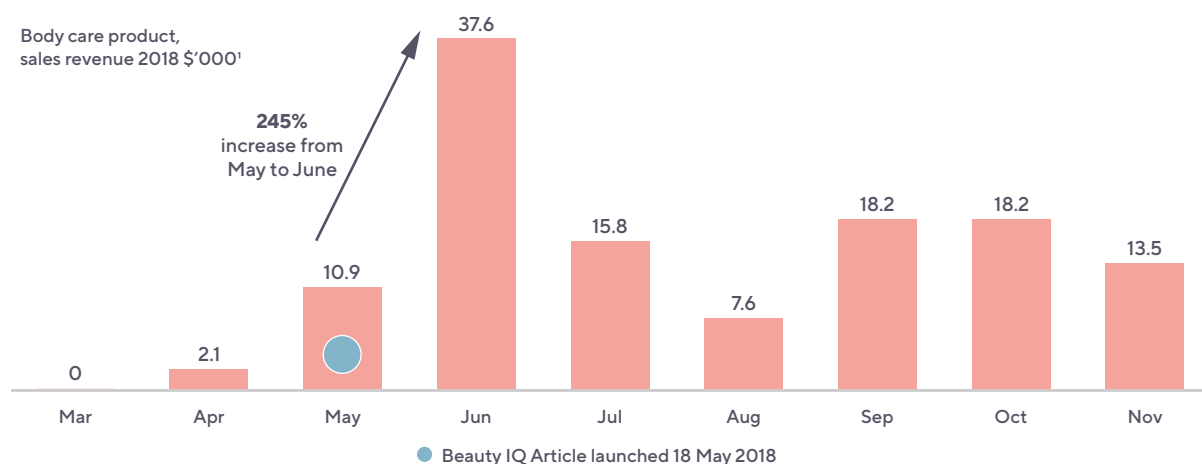
Benefits that Adore Beauty provides to brands include:

- **Product sampling and brand discovery with purchases.** Adore Beauty offers brands the opportunity to raise brand and product awareness through a comprehensive range of targeted and broad reach sampling and gift with purchase campaigns. For example, Adore Beauty gifts customers two free samples on all orders above \$50. The brands provide Adore Beauty with these samples free of charge. This offering differentiates Adore Beauty from new competitors entering the market who might not be able to include similar offerings.
- **Partnering for content creation and featuring in Beauty IQ articles, increasing their brand awareness and facilitating product education.** All editorial content is created either in-house by Adore Beauty or by contractors engaged by Adore Beauty. This content is published on Beauty IQ specifically, in other areas throughout Adore Beauty's website, and on social media platforms. From time to time, brands can collaborate with Adore Beauty to feature particular products in a targeted marketing effort. More commonly, Beauty IQ editors will create content that educates and informs the consumer based on their independent research and experience of a product, and by doing so, raises awareness of particular brands and products with customers. The customer-centric and brand-agnostic approach that Adore Beauty adopts with respect to content creation provides a greater opportunity to connect the right brands with the right customers. Please refer to Section 3.4.4.2 for more information on Beauty IQ.
- **Other marketing opportunities.** Adore Beauty collaborates with brands on other marketing opportunities to drive sales for their products, including onsite merchandising and promotions (i.e. gift with purchase), email marketing, and social media. In addition, brands also have the opportunity to collaborate with Adore Beauty on social and community initiatives.
- **Regular trading data and insights.** Adore Beauty communicates to brands their weekly sales data, insights and their relative ranking against competing products and brands on the platform. This information allows brands to measure the benefits achieved by participating in content creation with Adore Beauty, featuring in Beauty IQ editorials, or participating in free sample and gift with purchase programs. Adore Beauty's data collection touch points include traffic, product trends, marketing, brand perception, shipping, inventory, transaction, returns and customer behaviour.
- **Robust distribution and fulfilment network.** Adore Beauty provides brands with fast and reliable delivery for their products to customers. Refer to Section 3.5.1 of this Prospectus for further information about Adore Beauty's supply chain.

Section 3. Company Overview

In addition to being a strong distribution channel, Adore Beauty is an important marketing and development partner for brands, offering measurable results. An anonymised historical example of a product that has seen improved sales performance through being featured on the Beauty IQ platform is illustrated in Figure 25. A Beauty IQ article that featured a body care product was launched on 18 May 2018. Sales revenue for the relevant body care product increased by 245% from May 2018 to June 2018, one month after the article was published.

Figure 25: Example Beauty IQ campaign



Note: 1. Sourced from management transaction data for sales from March 2018 to November 2018.

3.4.3. Outstanding online transaction experience

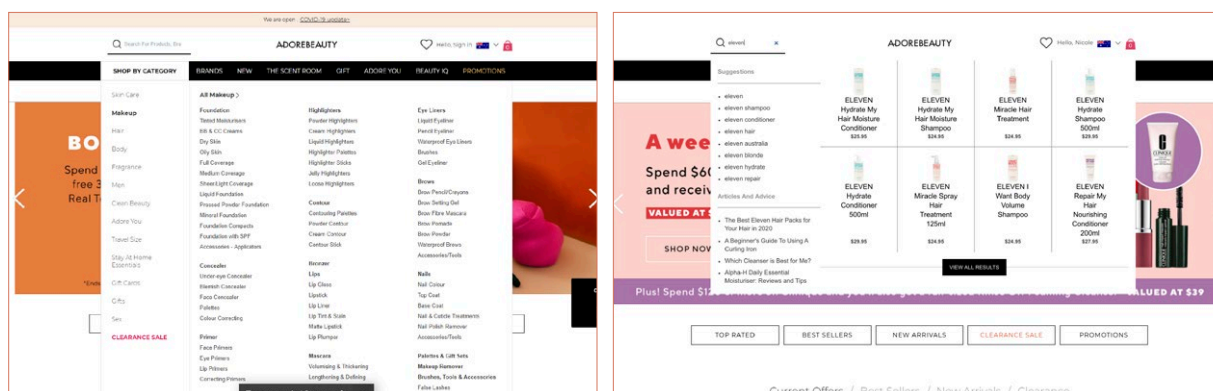
Adore Beauty seeks to provide customers with an outstanding online shopping experience through the following methods:

- Providing instant gratification as a result of a seamless transaction experience;
- AI-led personalisation and recommendations; and
- Engaging customers at all stages of the 'sales funnel' from discovery to repurchase.

3.4.3.1 Seamless transaction experience

Simple online ordering process

Adore Beauty utilises a simple, easy to use web-based platform that enables customers to quickly and easily add products to their shopping cart and confirm their purchase. There were 1.2 million orders placed with Adore Beauty in FY20. Adore Beauty intends to launch its mobile app on both Apple and Android application stores in late 2020 to provide customers with another channel from which to order from Adore Beauty.

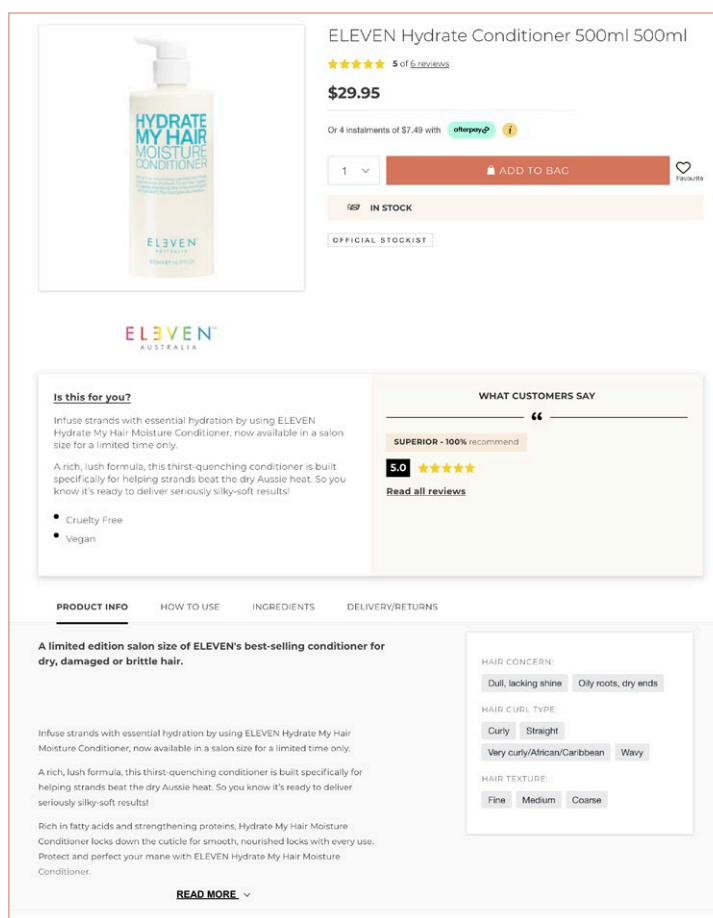


The product discovery process is simplified by BeautyWise, Adore Beauty's AI-driven beauty recommendation engine designed to provide a product selection service in a scalable, online and brand-agnostic format. Refer to Section 3.4.3.2 for more information on BeautyWise.

Easily accessible product information and customer-generated content

For all products available on Adore Beauty's platform, there is a significant amount of product information that is readily available to customers to help them make an informed purchasing decision. For example, it provides descriptive information about the product to allow a customer to decide if it is suitable for their age and specific concerns and needs, information on "how to use" the product, and a list of product specifications and ingredients.

Customers may also inform their purchasing decision with reference to product ratings and written reviews published by Adore Beauty's large and loyal customer base. The product pages also include Q&A where customers can ask question which are then answered, and these answers are also reviewed by customers. This represents a competitive advantage to Adore Beauty as bricks and mortar retailers do not have this capability in-store, and new online retailers may not yet have the volume of customer reviews or ratings to be an authority on a product's quality.



The screenshot displays the product page for ELEVEN Hydrate My Hair Moisture Conditioner. The product is shown in a white bottle with a pump dispenser. The price is \$29.95, with an option for 4 instalments of \$7.49 using Afterpay. The product is in stock, with 169 units available. The page includes a section titled "Is this for you?" which describes the conditioner as a limited edition salon size, built specifically for helping strands beat the dry Aussie heat. It lists benefits such as being cruelty-free and vegan. A "WHAT CUSTOMERS SAY" section shows a 5.0 star rating and a "SUPERIOR - 100% recommend" badge. The page also features a "PRODUCT INFO" tab, a "HOW TO USE" section, and a "HAIR CONCERN" section with filters for "Dull, lacking shine" and "Oily roots, dry ends". A "HAIR CURL TYPE" section has filters for "Curly" and "Straight", and a "HAIR TEXTURE" section has filters for "Fine", "Medium", and "Coarse". A "READ MORE" link is visible at the bottom.

Section 3. Company Overview

A focus on customer service

Adore Beauty has well-trained customer service teams based in Australia and Manila available to give specific recommendations to customers and support their decision-making. The Australian team, comprising trained product experts, primarily deal with product recommendations via live chat, emails or phone calls, providing on-demand personal customer assistance to help with education and customer service enquiries. The customer service team does not have sales targets or commissions, and are free to recommend the product most suitable for the customer's needs.


Figure 26: Adore Beauty's customer service teams

	Australia	Philippines
Location	Melbourne	Manila
# of personnel	25 employees	7 personnel ³
Types of questions/issues	Product recommendations	Transactions (delivery, payment, etc) and product recommendations
Communication channels	Product recommendations via chat; phone call	Email requests; some chat requests
Availability (AEST)	Chat – Sunday – Thursday: 9am-10pm, Saturday: 9am-5pm Phone – Monday – Friday: 9am-5pm	

Best-in-class delivery times

Adore Beauty offers customers free delivery on all orders, as well as free express delivery for purchases over \$50. With the Company's average order value being approximately \$100 since FY18, the majority of customer orders meet the \$50 spend requirement for express shipping. Customers experience fast dispatch times and delivery speeds. Adore Beauty offers a 90 day returns policy on all orders.

Figure 27: Dispatch and delivery times in Australia

	ADOREBEAUTY	MECCA	SEPHORA	MYER	DAVID JONES	
Free shipping	\$20 minimum order spend	>\$25	>\$65	>\$49	>\$50	No minimum
Free express	>\$50 ⁴	>\$75	≥\$149	N/A	N/A	>\$50
Dispatch time	Same day before 4pm	Same day before 2pm	N/A	N/A	N/A	Same day before 4pm

3. Adore Beauty engages a third party managed operations outsourcing company for the provision of a dedicated team of personnel in Manila.

4. Free express for orders greater than \$50 that do not contain flammable or dangerous goods.

High pick accuracy and delivery

Adore Beauty has a track record of high pick accuracy due to its system controls for order weight of each box and radio frequency scans at product pick and pack into each box. Adore Beauty has generally maintained a 99.99% pick accuracy since upgrading its warehouse management systems in 2018.⁵

The Company's warehouse management system, HighJump, is integrated with Australia Post, where tracking information is shared with both the customer and the Company. This ensures timely, efficient and accurate movement of stock to customers.

Sustainable packaging

Adore Beauty prioritises sustainable packaging practices. Paper void fill is recyclable, biodegradable and compostable, plastic backing of address labels are suitable for soft plastic recycling and customer order boxes are made from at least 35% recycled materials and are 100% recyclable. Volumetric weighing is used to determine the most economic and environmentally friendly box for each order.

Two free samples on orders above \$50

Adore Beauty currently offers customers two free samples on orders over \$50. This introduces customers to new products and gives customers an opportunity to try different products before purchasing them. Brands provide Adore Beauty with these samples free of charge as product sampling provides an opportunity to increase brand and product awareness (discussed further in Section 3.4.2.2 of this Prospectus). Adore Beauty believes free samples and gifts with purchase are a significant driver of repeat purchase.

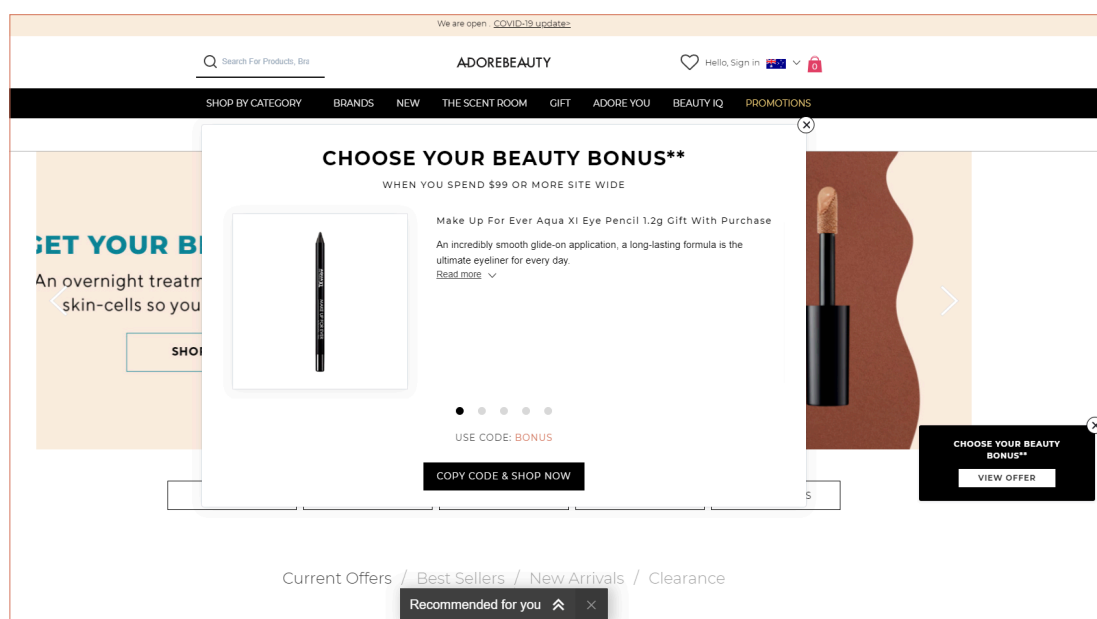
3.4.3.2 AI-led personalisation and recommendations

Overview

BeautyWise is Adore Beauty's AI-driven beauty recommendation engine designed to provide a product recommendation service which resembles in-store cosmetic counters, but in a scalable and brand-agnostic format. BeautyWise seeks to increase the level of personalisation and relevance to each consumer by providing a tailored customer experience. It does this by:

- Improving product discovery by incorporating customer preferences, including price sensitivity, when navigating through a portfolio of products and brands; and
- Personalising and curating the site experience to deliver relevant products and content to customers.

Through attempting to determine the most relevant content and products to display to a customer on Adore Beauty's website, BeautyWise acts to reduce spend friction and search fatigue and increase transaction probability. The Company believes BeautyWise is likely to increase the average customer's lifetime value by introducing new relevant products and driving repeat purchases.



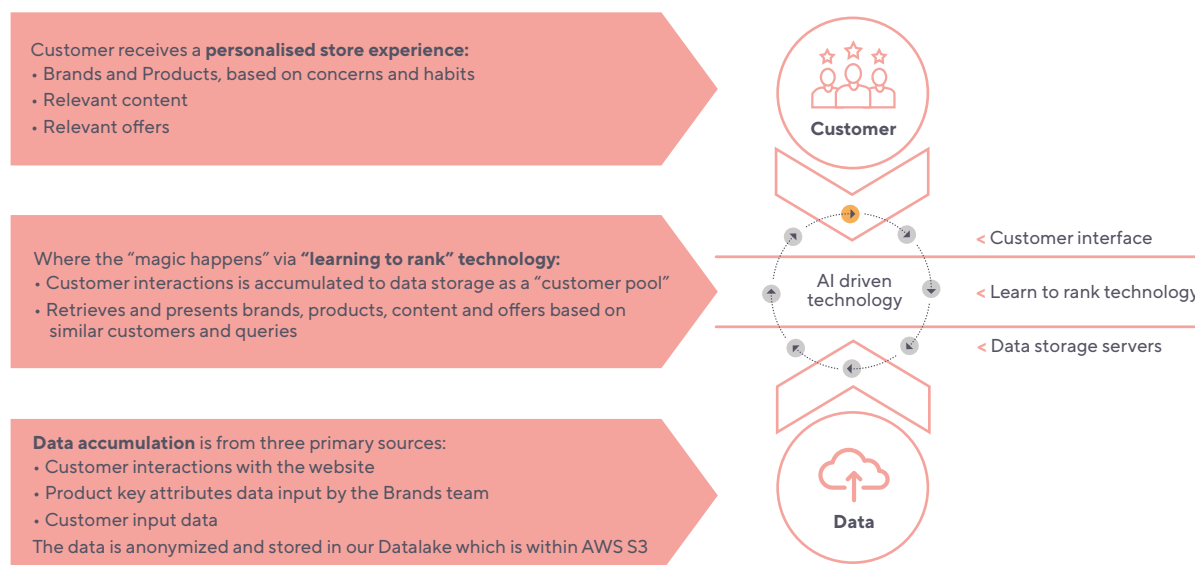
5. Pick accuracy rate based on proportion of customer returns for pick and pack errors (being 0.01% of orders).

Section 3. Company Overview

How it works

Adore Beauty tracks onsite user behaviour and transactional data, such as which products a customer is shown and on which products they display intent signals towards. Adore Beauty combines this data with the customer's existing data history on the platform, device information and channel acquisition information. The website experience is then tailored to the customer based on this personal profile.

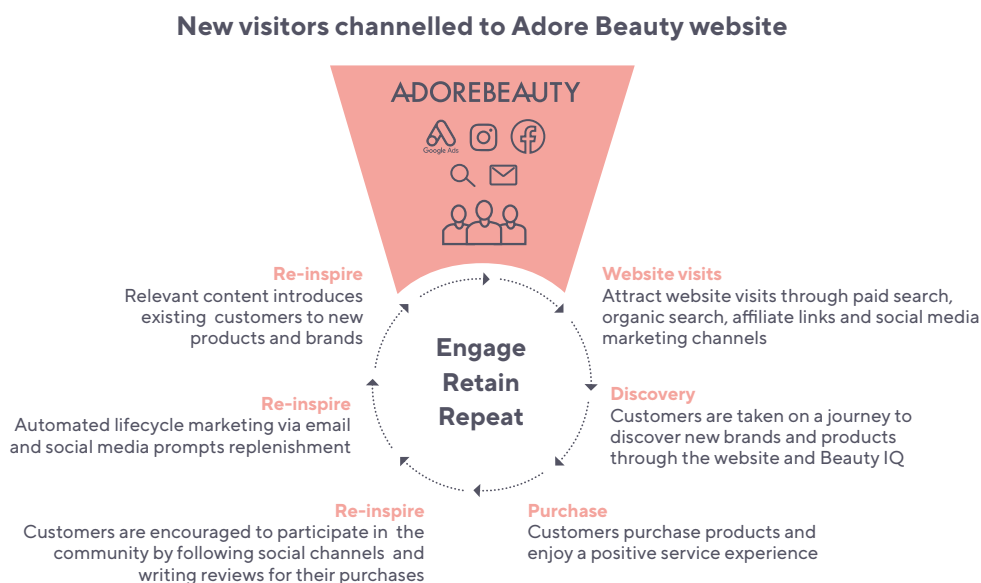
Figure 28: BeautyWise technology platform overview



3.4.3.3 Engaging customers at all stages of the 'sales funnel' from discovery to repurchase

Adore Beauty seeks to service both customers who are already searching for a particular brand or product, as well as potential customers who want to discover something new, be inspired or engage with beauty related content. Website visitors are taken on a journey to acquire, engage, convert and re-market.

Figure 29: Sales funnel



Marketing channels

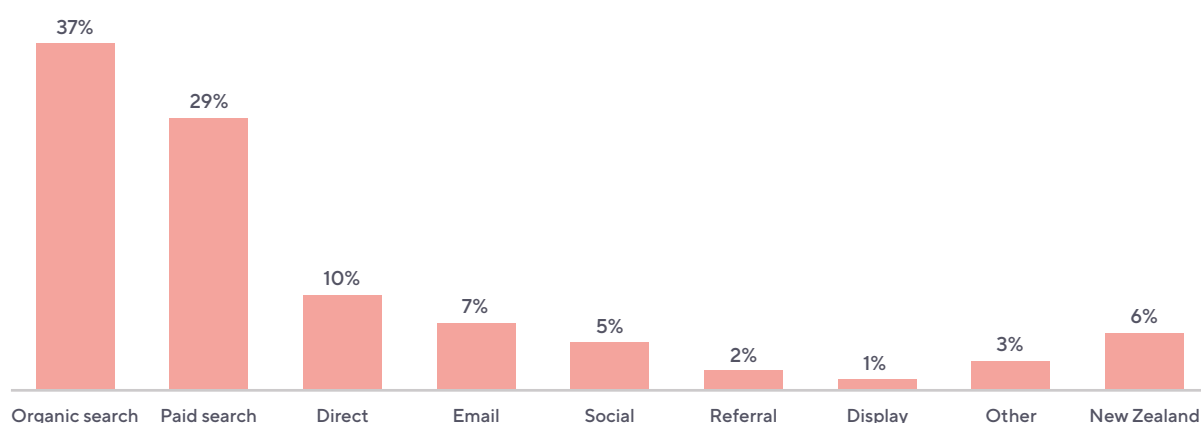
Adore Beauty utilises a combination of free and paid online marketing strategies to attract new customers and retain existing customers. A significant proportion of website traffic has historically been generated through free sources (e.g. organic search, direct, partner referral, email), highlighting a competitive advantage in Adore Beauty's brand.

Organic search and direct generates the highest level of traffic to Adore Beauty's website. The Company believes that its authentic and engaging content – which is not typically offered by omni-channel beauty competitors – likely contributes to the success of these channels. Paid search is the marketing channel that generates Adore Beauty's second largest number of sessions. Over time, the Company intends to reduce reliance on paid marketing channels through increasing brand awareness and growing its loyalty offering.

The Company also utilises a range of targeted marketing channels (e.g. email and social media marketing) which allow tailored communications with customers.

From time to time, Adore Beauty engages in paid marketing opportunities wherein the cost of that marketing is funded or partially funded by a brand featured in the marketing.

Figure 30: Website traffic by channel (1 January 2020 to 31 July 2020)



Description of various marketing channels

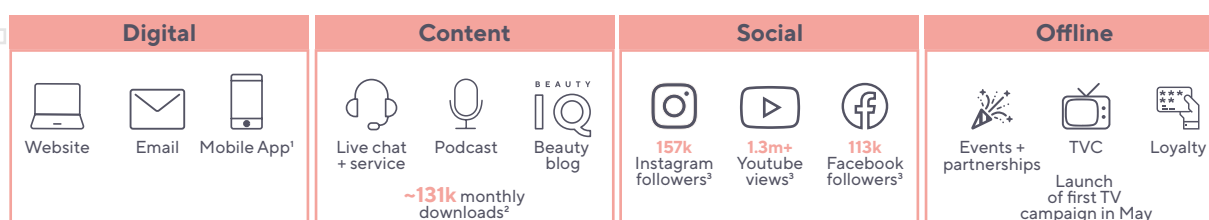
DIGITAL	Direct	<ul style="list-style-type: none"> Adore Beauty's website - the e-commerce platform where brands, content and customers connect. Traffic from marketing channels is directed to this ecosystem. Direct traffic growth reflects the website's increasing status as an online beauty destination and represents Adore Beauty's growth in brand awareness.
	Mobile App	<ul style="list-style-type: none"> The Company intends to launch the Adore Beauty mobile app in late 2020.
	Organic search	<ul style="list-style-type: none"> A free listing in Google Search or Bing Search that appears because it is relevant to an individual's search terms.
	Paid search	<ul style="list-style-type: none"> Predominantly Google AdWords.
	Email	<ul style="list-style-type: none"> Subscribers typically receive four emails per week, including three campaign emails plus a mix of personalised product recommendations, new product launches, reminders of products left in their virtual basket and editorial content.
	Affiliate	<ul style="list-style-type: none"> Click-through from affiliate websites or content generators (e.g. social media, influencers).

Section 3. Company Overview

Description of various marketing channels continued

SOCIAL MEDIA	Facebook Instagram Youtube Twitter	<ul style="list-style-type: none"> Adore Beauty has developed an authentic and powerful social media engine. Adore Beauty maintains a full suite of social media channels including Instagram, Facebook and Youtube. The Company has a strong social media presence with 157k Instagram followers, 1.3M+ Youtube views and 113k Facebook followers, as at 28 August 2020. The platforms are primarily used to promote in-house blog content and for conducting giveaways, competitions and product launches. Social media influencers are used to increase exposure and reach through “Instagram takeovers” on the Adore Beauty Instagram page and sponsored Instagram posts, along with guest appearances across Adore Beauty’s content platforms to facilitate new audiences to engage the brand.
	Podcast	<ul style="list-style-type: none"> Adore Beauty releases weekly episodes of its “Beauty IQ Uncensored” podcast via platforms including iTunes and Spotify. The podcast receives 131k downloads per month as at 28 August 2020 across all streaming platforms, and is ranked #1 for Fashion and Beauty in Australia on iTunes as at 26 August 2020.
OFFLINE	Events and partnerships	<ul style="list-style-type: none"> Adore Beauty collaborates with beauty brands, social media influencers and other partners to raise brand awareness. For example, during the 2018, Spring Carnival, Adore Beauty partnered with Bumble Australia and held a “Glow & Good Hair Station” in the Bumble Marquee offering hair and make up touch-ups to guests. Adore Beauty recorded the event on the Company’s Instagram Story and Facebook post and measured an increase of over 890 website sessions resulting from the Instagram Story and Facebook post.
	Loyalty	<ul style="list-style-type: none"> Customers are offered samples, gifts with purchases, occasional gift voucher giveaways and a free Tim Tam with each purchase. Higher spending customers may receive increased gift sizes. Adore Beauty intends to introduce a formalised loyalty program. Further information on this is found in Section 3.8.1 of this Prospectus.
	Television commercials	<ul style="list-style-type: none"> Adore Beauty’s first television commercial, “Whatever Makes You, You”, launched in May 2020 to reach a captured audience and raise brand awareness. This was expanded to a national campaign in June 2020. Since launching in May 2020, Adore Beauty has measured that its brand awareness has increased by 13%.

Figure 31: Marketing channel reach



Notes: 1. Launching in 2H CY20; 2. Podcast metrics as at 28 August 2020 from all streaming platforms; 3. Metrics as at 28 August 2020.

3.4.4. Data enriched customer engagement

3.4.4.1 Customer satisfaction

Adore Beauty believes that customers are highly satisfied with the Company's extensive product offering and outstanding transaction experience. Notably, customer satisfaction remained steady over the COVID-19 period.

The Company monitors its Net Promoter Score as one means of measuring customer satisfaction and the propensity to recommend the platform to friends. The Net Promoter Score is ascertained by sending an email to customers who have placed two orders or more with Adore Beauty (i.e. not every customer is invited to participate in the Net Promoter Score survey). These customers are asked *'how likely are you to recommend Adore Beauty to friends or family?'*, based on a scale of 0 to 10. A score between and inclusive of 9 or 10 indicates that the customer is a Net Promoter of Adore Beauty. As at 15 July 2020, Adore Beauty had a Net Promoter Score of 78.8.

Customer satisfaction is also exemplified by the high score of 4.9/5 on Google Reviews as at 15 July 2020, based on a set of over 21,000 reviews. Furthermore, the Beauty IQ Uncensored podcast have received a five star rating on Apple Podcasts from over 1,000 reviews.

Figure 32: Customer satisfaction



3.4.4.2 Customer retention

In addition to the key drivers outlined above – namely, Adore Beauty's extensive product offering and outstanding transaction experience – the Company is able to improve customer retention rates by integrating its in-house content, Beauty IQ, with its e-commerce platform, as well as by using a disciplined marketing approach to target customers at all stages of their purchase lifecycle.

Customer retention rates increased through COVID-19 and held up, notably even in states that have eased restrictions (e.g. Western Australia and Queensland).

Customer-led engagement through content to inspire new purchases

Beauty IQ is Adore Beauty's original editorial content platform including beauty news, tips and 'how-to' in written editorial and video format. Beauty IQ provides original content which focuses on educating and empowering customers to choose which products are right for them.

All editorial content is created in-house or by contractors engaged by Adore Beauty. Adore Beauty staff engage in product research, article drafting, in-house design studio and photography. Content is made up of a full time Brand and Content Manager, full time Senior Editor, full time Digital and Content Manager, full time Copywriter, part time Senior Content Creator, full time Social Media Coordinator and full time Videographer. The content is published on Beauty IQ and marketed via email and social media, with the aim of informing consumers and regularly directing traffic back to Adore Beauty's website. The Company believes that Beauty IQ drives a loyal customer base as it increases contact and engagement with customers between purchases by providing a platform for customers to consume educational and entertaining content. During the COVID-19 period, Adore Beauty adapted its content to be more relatable to navigating through the pandemic. Customers who were seeking both comfort and entertainment continued to be engaged through the honest and relatable content.

Section 3. Company Overview

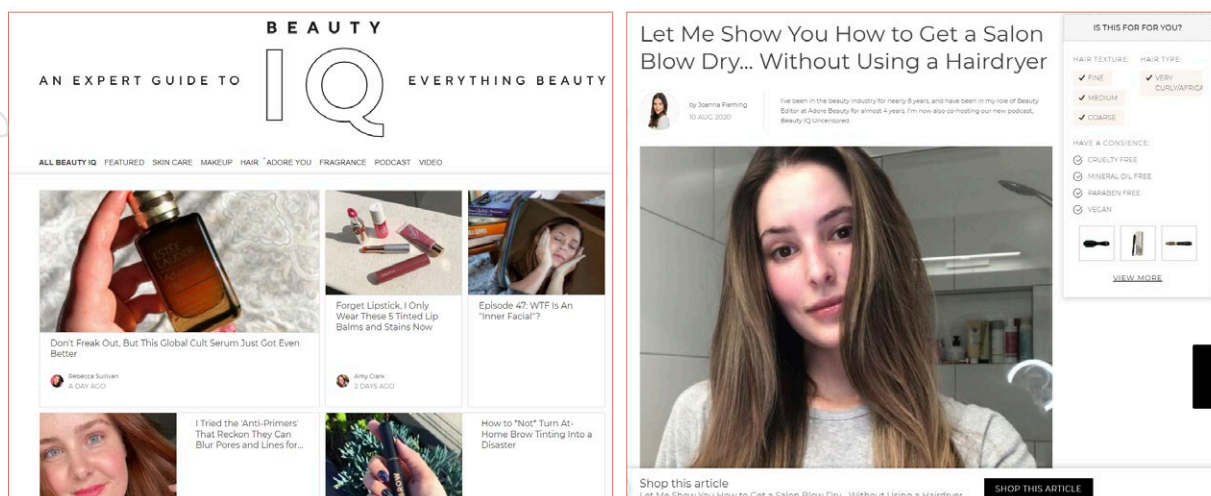


Figure 33: Content created in a typical week



4
Email
campaigns



12
Instagram
posts
80
Instagram
stories



6
Facebook
posts



120
Images
photographed

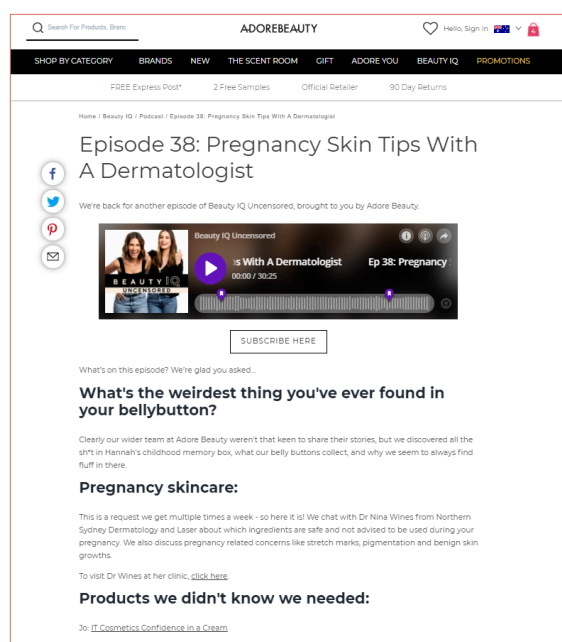
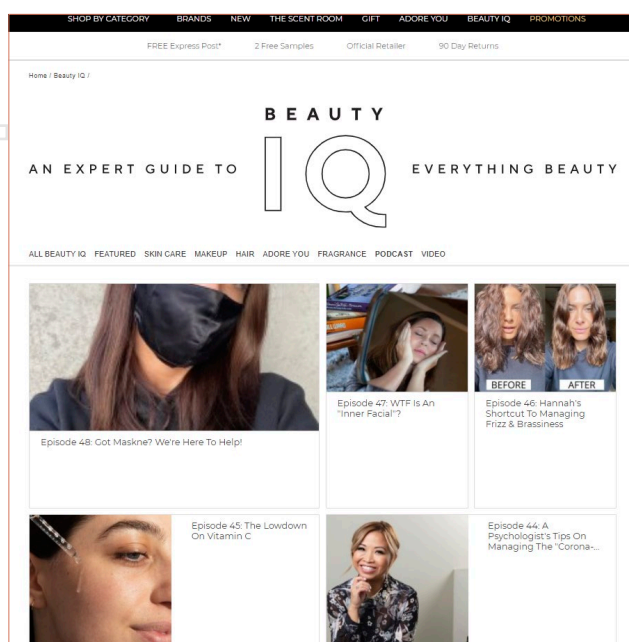


4
Video
episodes
or live
broadcasts



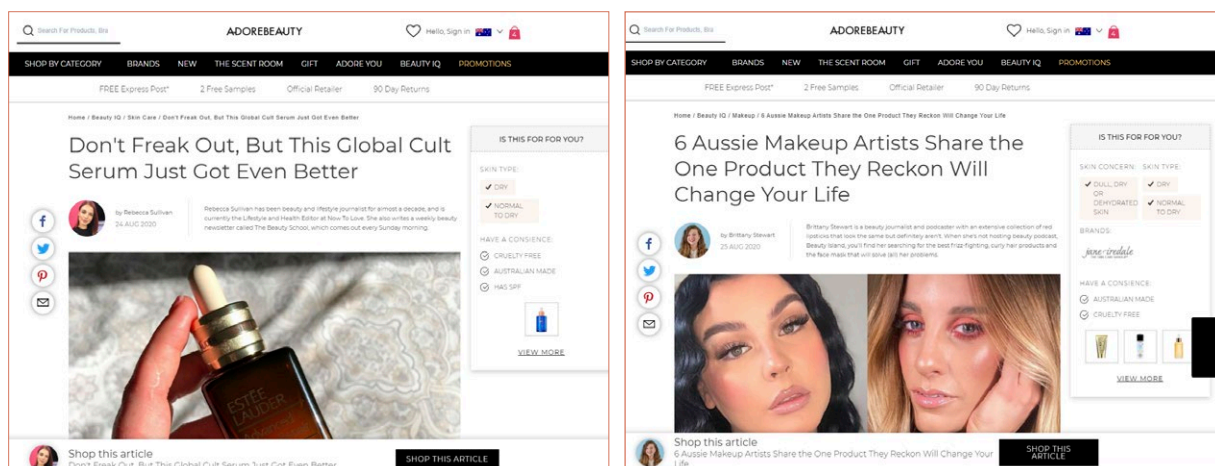
6
Beauty IQ
articles

Adore Beauty has also launched the “Beauty IQ Uncensored” podcast, which commenced in August 2019 and is another educational and entertaining approach to engaging with Adore Beauty customers. It is ranked as #1 in the Fashion and Beauty Category, and #3 in the Arts Category in iTunes’ podcast rankings as at 26 August 2020.



A number of Adore Beauty articles and posts have been reposted by leaders in the media industry with extensive consumer reach, including companies such as InStyle and Marie Claire. Adore Beauty believes that this reinforces the credibility of the Beauty IQ content as an educational source of information.

Adore Beauty has further leveraged the Beauty IQ platform with the addition of e-commerce functionality to provide a seamless and integrated online shopping experience. This allows consumers to transact without switching between content and commerce pages of the Company's website by adding products directly to their cart. This strategy seeks to inspire product demand, rather than relying on product placement to drive sales.



Continued customer engagement

Adore Beauty has a disciplined approach to retaining customers that have previously made a purchase from its platform, by:

- Utilising automated lifecycle marketing via email to prompt a customer to complete a purchase;
- Providing customers with samples, gifts with purchase and gift voucher giveaways; and
- Re-inspiring customers that have been absent from the Company's website with products, brands and content. These customers are sent emails with relevant recommendations based on their prior purchasing behaviour, as well as their interest in product categories and related content.

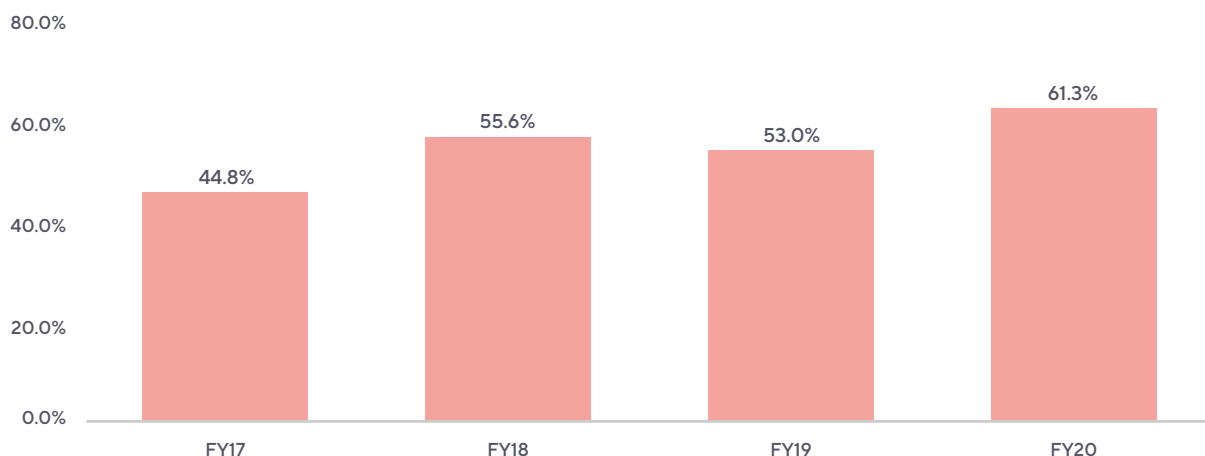
These initiatives are tailored to the individual customer, and can be informed by the Company's machine learning platform, BeautyWise, that takes into account the customer's existing data history on the platform. Adore Beauty is able to introduce new and relevant products based on the customer's past experience, which is likely to minimise search fatigue and drive repeat purchases. Further information on BeautyWise is contained in Section 3.4.3.2 of this Prospectus.

Section 3. Company Overview

Strong customer retention rates

The success of Adore Beauty's strategy is illustrated in Figure 34 by the improvement in customer retention rates from 44.8% in FY17 to 61.3% in FY20.

Figure 34: Aggregated Active Customer retention (%)



Note: Retention rate = (Active Customers as at the end of the relevant financial year - Active Customers acquired during the relevant financial year) divided by Active Customers as at the commencement of the relevant financial year. Active Customers means customers who have made a purchase in the last twelve months.

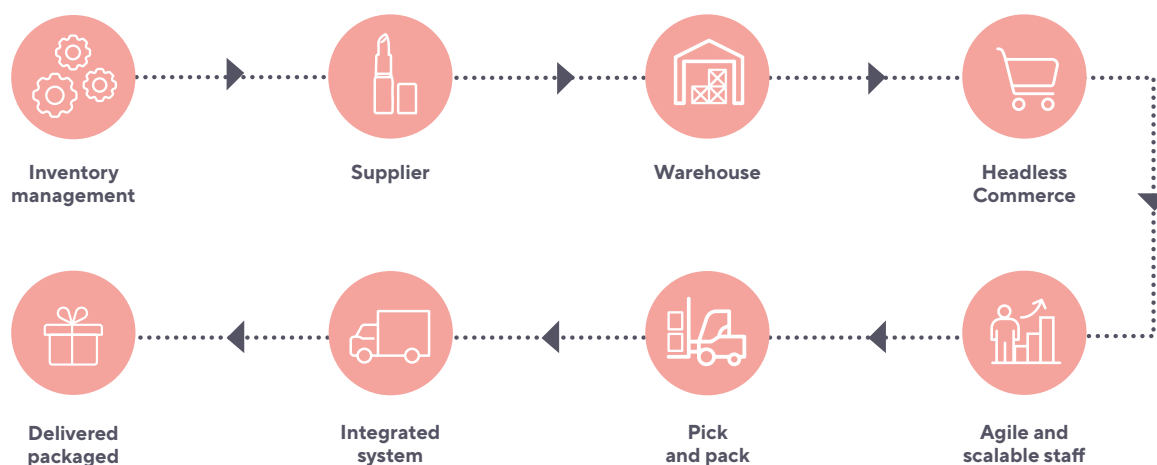
3.5. Scalable technology and distribution platform

Adore Beauty has invested in its infrastructure and technology platform to support continued customer growth.

3.5.1. Supply chain

The flow of the warehouse is designed to optimise dispatch of orders to meet customer demand. Figure 35 below summarises the key steps in the Company's supply chain, each of which are described in detail in this Section 3.5.1.

Figure 35: Supply chain



3.5.1.1 Inventory management

Inventory balance decisions are based on a combination of historical data and forecasting to optimise stock levels and composition. Adore Beauty conducts a rolling analysis of sales volumes over its top two thousand SKUs and top 50 brands, whereby a traffic light system identifies if urgent orders are required. Adore Beauty also forms a view on forecast requirements by looking at its future marketing plan and its forecast acquisition of new customers. The Company maintains stock turn targets between 50 to 70 days, depending on the month.

Once stock is purchased, it typically takes one to 14 days to be delivered to Adore Beauty's warehouse. The Company has normal supplier trading terms between 30 to 60 days.

Adore Beauty's customers typically purchase between three to five unique SKUs per transaction, requiring Adore Beauty to hold a sufficient level of inventory across a broad range of SKUs. All items in a customer's basket are delivered simultaneously, in comparison to drop ship business models, which generally deliver multiple items within the same basket as they become available.

3.5.1.2 Warehouse and warehouse management system

Adore Beauty leases a 4,370sqm warehouse located in Keilor Park, a North Western suburb of Melbourne and approximately 18.1km from Adore Beauty's head office in Northcote. The warehouse is located close to Australia Post and Melbourne Airport, allowing for some orders to go directly to the airport Gateway for Australian customers.

The warehouse is able to support up to 15,120 orders per day without expected significant capital expenditure and operating two shifts per day. Adding a third shift in conjunction with reviewing the operational flow and storage of the warehouse would increase this capacity. This represents significant warehouse capacity with current utilisation rates at approximately 31%.⁶ Adore Beauty's highest total daily orders packed is approximately 11,555 in August 2020.

Adore Beauty implemented a new warehouse management system, HighJump, in September 2018. HighJump is used for receipt and dispatch of goods as well as tracking information such as item locations, inventory levels and dimensions. The benefits of HighJump include:

- Volumetric box size selection. This selects the box size based on volume of order, which reduces environmental impact when using the smallest size box;
- Improved pick accuracy compared to the previous system. HighJump also allows reporting of pick times, per person, in real time; and
- Scalability and the potential to increase warehouse automation in future.

Having regard to the longer term growth of the Company, Adore Beauty is exploring options to increase long term warehouse capacity.

3.5.1.3 Employees

Adore Beauty has a dedicated team of approximately 100 warehouse staff, working 6.30am-11.30pm on Monday to Friday and the variable option of Saturday and Sunday shifts when required to fulfil orders seven days a week. A casual workforce, a flexible second shift and access to additional resources via a labour-hire firm allows Adore Beauty to scale labour depending on customer demand.

In response to COVID-19, Adore Beauty has implemented the following to increase safety with minimal disruption to its business:

- split its shifts with a deep clean in between;
- engaged a full-time cleaner at the warehouse;
- social distancing;
- two weeks paid leave for employees who are unable to work due to COVID-19; and
- open communication and support for all employees.

3.5.1.4 Carrier

Adore Beauty's current carrier is Australia Post who fulfils all orders domestically and SEKO Logistics who serves New Zealand. Four to eight week daily order projections are shared with Australia Post when available so that extra pickups can be planned and scheduled as required, especially for sales events such as Cyber Weekend and Click Frenzy. Australia Post makes three pickups per day, with extra pickups scheduled based on demand.

6. Based on the average of 6,469 orders, per day in August, the utilisation for COVID-19 operations is 43% and the utilisation for non-COVID-19 operations is 31%.

Section 3. Company Overview

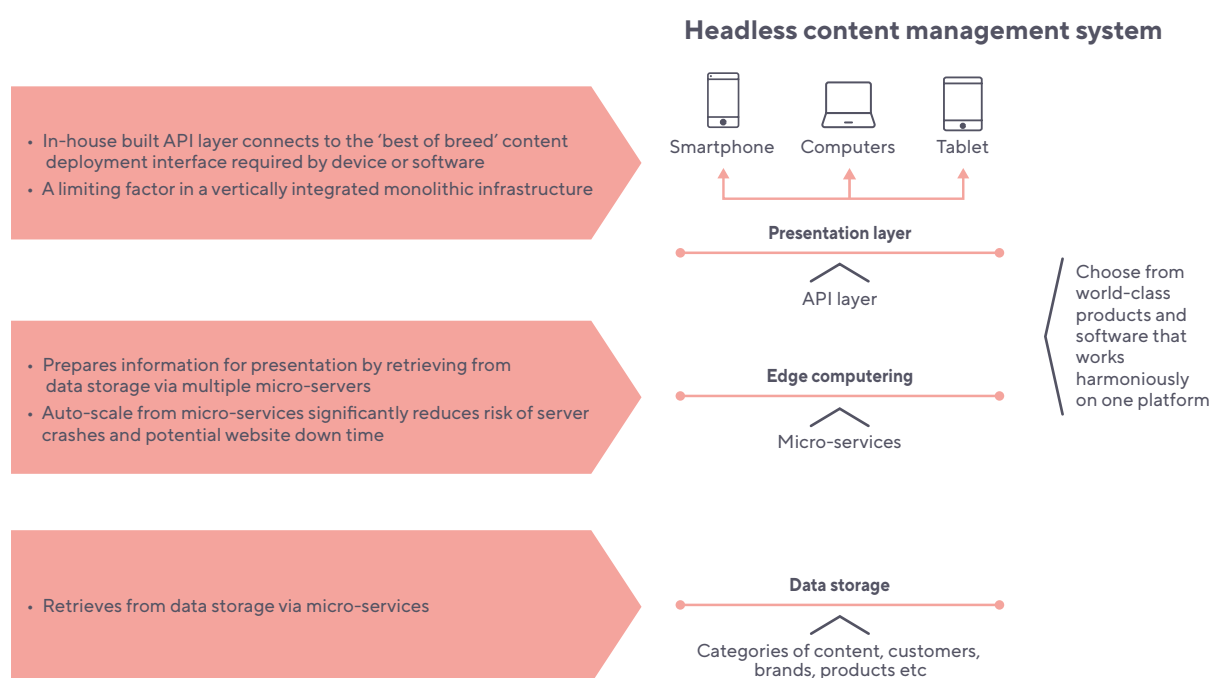
3.5.2. Technology and Infrastructure

3.5.2.1 Headless commerce platform

In 2019, Adore Beauty moved to a modular commerce platform. Key features of the platform include:

- **Ability to adopt 'best of breed' technology:** Modular adoption for 'best of breed' technology in a single platform connected by an in-house built application programming interface;
- **Agile, nimble and scalable:** Each component of the platform can be scaled, maintained, upgraded or swapped out quickly with nominal disruption to the overall platform;
- **Reduced risk:** Decentralised micro-services which drive data retrieval lowers the risk of system overload and server crashes, leading to website shutdowns; and
- **Lower maintenance cost:** Lower maintenance cost compared to Adore Beauty's previous platform.

Figure 36: Modular platform overview



3.5.2.2 Other IT systems and infrastructure

BigCommerce	<ul style="list-style-type: none"> • Adore Beauty will transition to BigCommerce (expected by October 2020) to manage customer accounts and orders • This will allow for integration with any apps allowing for a more seamless API integration
Amazon QuickSight	<ul style="list-style-type: none"> • Provides dashboards on business (revenue) data, web and social media analytics to facilitate intelligent business decisions

3.5.3. Data security

Adore Beauty utilises two external providers to manage system and data security.

Services provided by these external providers include:

- security management;
- penetration testing of the Mobile App, APIs and the Adore Beauty website;
- container security reviews;
- 24x7x365 security monitoring providing around the clock monitoring, vulnerability scanning, ongoing reporting, threat intelligence and dark web monitoring;
- guidance in relation to cyber attacks, breaches and potential compromises; and
- scanning for phishing, malware and data leakages to protect against attacks on cloud applications.

Adore Beauty does not hold customers' credit card information.

3.6. Employees and culture

Adore Beauty has grown to 183 passionate employees who embody the Adore Beauty culture and values.

Adore Beauty's key values include:

- **Working for each other:** We all pitch in, share knowledge and offer help.
- **Doing the right thing:** We show fairness, honesty and respect to our co-workers, customers and suppliers. We live up to our promises and admit our mistakes.
- **A positive approach:** We look for the best in people and situations. Blame less, care more and respect each other's differences.
- **Always growing:** We challenge ourselves, embrace change, show courage, and consider mistakes an opportunity to learn.

The Company has a strong focus on cultural areas such as:

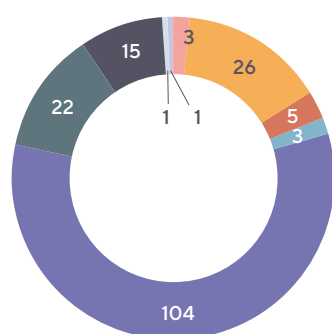
- Environmental, social and governance;
- Sustainability;
- Diversity and inclusion; and
- Community support.

Of Adore Beauty's 183 employees, 92 work on a full-time basis, 29 work on a part-time basis and 62 on a casual basis. Warehouse personnel comprise the largest group of employees at 104 employees, followed by the marketing department with 26 employees. All employees are based in Australia.

Figure 37: Headcount by function and employment as at 31 July 2020

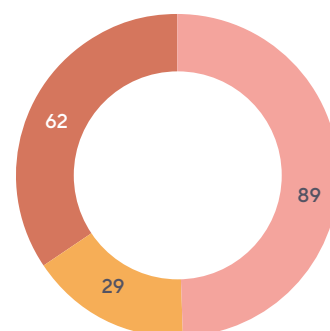
By Function

- Finance
- Marketing
- IT
- HR
- Warehouse
- Customer service
- Brands
- Salon
- Leadership



By Employment

- Full-time
- Part-time
- Casual



Note: Excludes Kate Morris, James Height and Tennealle O'Shannessy.

Kate Morris and James Height will remain in the Company as Executive Directors and substantial Shareholders of Adore Beauty. Both have been fundamental in the evolution and success of the business to date. They remain committed to the business and will oversee its next phase of growth as an ASX-listed company.

Section 3. Company Overview

3.7. Awards and achievements









Adore Beauty has been recognised as a leading Australian online-only retailer and as a high growth business. Awards and achievements have included:

- Power Retail All Stars Top 100 Online Retailers and Top Customer Rated Online Store in Australia in 2018;
- Deloitte Tech Fast 50 and Asia Pacific Tech Fast 500 from 2013 to 2019;
- Top Email Marketing from All Star in 2019; and
- Power Retail Top Innovator, Top Customer Experience, Top User Experienter in 2020.

Kate Morris (co-founder and Executive Director) and Dan Ferguson (Chief Marketing Officer) have also received accolades with respect to their work with the Company:

- Kate Morris was a Veuve Clicquot Business Woman Award Finalist in 2019;
- Kate Morris received the InStyle 'Women of Style' award in 2019;
- Kate Morris ranked #2 in Inside Retail's Top 50 people in e-commerce in 2019;
- Kate Morris ranked #9 in Inside Retail's Top 50 people in e-commerce in 2020;
- Dan Ferguson ranked #20 in Inside Retail's Top 50 people in e-commerce in 2020; and
- Kate Morris received the All Star Legend Award from Power Retail in 2020.

Figure 38: Awards and achievements

2018	2013-2019	2019	2019	2019	2019	2020	2020
							
PowerRetail AllStars Top 100 Online Retailers and Top Customer Rated Online Store in Australia	Deloitte Tech Fast 50 and Asia Pacific Tech Fast 500	Veuve Clicquot Business Woman Award Finalist Kate Morris	Instyle 'Woman of Style' awards Kate Morris	Inside Retail Top 50 people in eCommerce Kate Morris #2	Power Retail Top Email Marketing	Inside Retail Top 50 people in eCommerce Kate Morris #9 Dan Ferguson #20	Power Retail Top Innovator Top Customer Experience Top User Experience All Star Legend Award (Kate)

3.8. Growth strategy

Adore Beauty has multiple avenues for pursuing growth through clearly defined strategic initiatives leveraging data and market position. Adore Beauty's growth strategy is focused on two pillars:

1. Growing the core business; and
2. Expanding into new markets and adjacent categories.

3.8.1. Growing the core business

Strategic priorities	Description	Targeted results
Grow brand awareness	Adore Beauty's aim is to reach the millions of people that have not yet heard of Adore Beauty and build trust and connection with these individuals to drive traffic and conversion growth. The Company believes there is significant opportunity to increase its current levels of brand awareness to +80% (brand awareness was 47% as at 15 July 2020).	<ul style="list-style-type: none"> • Increased brand awareness and preference • Grow contribution of direct and organic traffic • Reduce CAC • Increase LTV • Increase ROAS
Further build offering for customers who do not know what they want to purchase	Adore Beauty's aim is to build a compelling proposition for those customers who do not know what they want to purchase. The Company hopes to support customers' decision-making through guided navigation to a small selection of products, in an authentic, personalised way. Guided onsite navigation and telehealth consults are among the options being explored.	<ul style="list-style-type: none"> • Strengthen competitive moats • Improve conversion • Increase LTV • Maintain NPS

Strategic priorities	Description	Targeted results
Leverage data set to further provide authentic personalisation	Adore Beauty is looking to grow conversion, engagement and customer lifetime value through continued investment in initiatives that leverage the Company's deep customer data set.	<ul style="list-style-type: none"> • Build competitive moat • Improve conversion • Increase LTV • Maintain NPS
Launch Mobile App	<p>Adore Beauty intends to launch a Mobile App in late 2020.</p> <p>The Mobile App will have a content-first focus, delivering highly personalised and relevant content to engage customers with blog posts, guides, routines and reviews, and to provide a seamless transition to purchase. The Mobile App will represent an "owned" marketing channel (for example, to support notifications).</p>	<ul style="list-style-type: none"> • Mobile app traffic • Mobile app funnel conversion • Mobile app engagement • Increased LTV
Enhance loyalty and rewards to drive customer retention	<p>Adore Beauty is looking to launch a loyalty program. This is likely to take the form of a holistic tiered program including financial, experiential, useful, personal and social benefits, delivering tangible perceived value to members and providing members with a sense of belonging and inclusivity.</p> <p>Adore Beauty's vision is to have the most rewarding beauty loyalty program in Australia and New Zealand by creating a highly personalised and tailored customer experience.</p>	<ul style="list-style-type: none"> • Number of repeat purchases • Customer retention rates • AOV over time • Number of loyalty members

3.8.2. Expanding into new markets and adjacent categories

Strategic priorities	Description	Targeted results
Private label	<p>Adore Beauty will aim to leverage its customer knowledge, data and experience to tailor brands and products for identified gaps in the target market. Private label brands will enable Adore Beauty to fill product offering gaps, increase flexibility in marketing and design and improve supply chain management through control of sourcing, volume and timely delivery.</p> <p>Adore Beauty has commenced the process to develop several independent house labels. Management is currently aiming to launch these in house brands in 2H CY21.</p>	<ul style="list-style-type: none"> • Build competitive moat • Improve margin • Expand TAM through international D2C expansion
Category and market adjacencies	<p>Adore Beauty will continue to increase the number of brands offered as well as expand its product categories.</p> <p>The Company is looking to target related verticals that it believes its customers will respond to, and that stay true to its brand voice.</p> <p>As part of such expansion, Adore Beauty will likely look for opportunities to secure exclusive rights, import international brands, launch own brands, acquire or incubate nascent or growing brands.</p>	<ul style="list-style-type: none"> • Increase addressable market • Increase market penetration through increasing SKU coverage • Improved margin • Build competitive moats

Section 4.

Financial Information



For personal use only

4.1. Introduction

The financial information for Adore Beauty contained in Section 4 includes:

- historical consolidated financial information for the financial years ended 30 June 2018 (**FY18**), 30 June 2019 (**FY19**), 30 June 2020 (**FY20**), the calendar year ended 31 December 2019 (**CY19**), and the six months ended 31 December 2019 (**1H FY20**); and
- forecast consolidated financial information for the calendar year ending 31 December 2020 (**CY20F**), and the six months ending 31 December 2020 (**1H FY21F**).

Table 1: Overview of Adore Beauty's Financial Information

	Statutory Financial Information	Pro Forma Financial Information
Historical Financial Information	<ul style="list-style-type: none"> • Statutory Historical Financial Information includes the: <ul style="list-style-type: none"> – statutory historical statements of profit or loss and other comprehensive income for FY18 and FY19, and the statutory historical consolidated statements of profit and loss and other comprehensive income for FY20 and 1H FY20 (Statutory Historical Results); – statutory historical statements of cash flow for FY18 and FY19, and the statutory consolidated statements of cash flow for FY20 and 1H FY20 (Statutory Historical Cash Flows); and – statutory historical consolidated statement of financial position as at 30 June 2020 (Statutory Historical Statement of Financial Position). 	<ul style="list-style-type: none"> • Pro forma Historical Financial Information includes the: <ul style="list-style-type: none"> – pro forma historical consolidated statements of profit or loss and other comprehensive income for FY18, FY19, FY20, CY19 and 1H FY20 (Pro Forma Historical Results); – pro forma historical consolidated statements of cash flow for FY18, FY19, FY20, CY19 and 1H FY20 (Pro Forma Historical Cash Flows); and – pro forma historical consolidated statement of financial position as at 30 June 2020 (Pro forma Historical Statement of Financial Position).
Forecast Financial Information	<ul style="list-style-type: none"> • Statutory Forecast Financial Information includes the: <ul style="list-style-type: none"> – statutory forecast consolidated statements of profit or loss and other comprehensive income for 1H FY21F (Statutory Forecast Results); and – statutory forecast consolidated statement of cash flow for 1H FY21F (Statutory Forecast Cash Flows). 	<ul style="list-style-type: none"> • Pro forma Forecast Financial Information includes the: <ul style="list-style-type: none"> – pro forma forecast consolidated statements of profit or loss and other comprehensive income for CY20F and 1H FY21F (Pro Forma Forecast Results); and – pro forma forecast consolidated statements of cash flow for CY20F and 1H FY21F (Pro Forma Forecast Cash Flows).

The Historical Financial Information and the Forecast Financial Information defined above together form the **Financial Information**.

Adore Beauty operates on a 30 June financial year end basis, and the Financial Information in this Section has been presented on this basis. In addition to the 1H FY21F forecast financial information for the 6 months ending 31 December 2020, this section also includes pro forma historical and forecast results of the calendar year ended 31 December 2019 (**CY19**) and calendar year ending 31 December 2020 (**CY20F**) respectively. Adore Beauty does not report on a calendar year basis and therefore no statutory financial information is presented for the CY19 and CY20F periods. The Statutory Forecast Results and the Statutory Forecast Cash Flows for 1H FY21F has been presented as this is a statutory (half year) period which Adore Beauty will be reporting on when interim results for 1H FY21F are released in February 2021.

Section 4. Financial Information

Figure 39: Overview of the Financial Information contained in this Section 4

Jun 17	Dec 17	Jun 18	Dec 18	Jun 19	Dec 19	Jun 20	Dec 20
	FY18 (Pro-forma and Statutory)		FY19 (Pro-forma and Statutory)		FY20 (Pro-forma and Statutory)		
				CY19 (Pro-forma)		CY20F (Pro-forma)	
				1H FY20 (Pro-forma and Statutory)		1H FY21F (Pro-forma and Statutory)	

Also summarised in this Section 4 are:

- the basis of preparation and presentation of the Financial Information, including the application of relevant new and revised accounting standards had they applied to the Historical Financial Information and the Forecast Financial Information (see Section 4.2);
- an explanation of certain financial measures that are neither recognised by the Australian Accounting Standards Board (AASB) or under the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that are used by Adore Beauty are included in this Prospectus to assist investors in understanding the financial performance of the business (see Section 4.3) (non-IFRS financial measures);
- a summary of the key operating and financial metrics (see Section 4.4.2);
- the pro forma adjustments to the Statutory Historical Financial Information and the Statutory Forecast Financial Information, and reconciliations to the Pro Forma Historical Financial Information and the Pro Forma Forecast Financial Information respectively (see Sections 4.4, 4.5 and 4.6);
- a description of the key drivers affecting the Adore Beauty business set out in Section 4.7.1;
- Management discussion and analysis of the Pro Forma Historical and Forecast Financial Information (see Section 4.8);
- the Directors' best estimate of general and specific assumptions underlying the Forecast Financial Information (see Sections 4.8.1 and 4.8.2);
- an analysis of the key sensitivities in respect of the Forecast Financial Information (see Section 4.10); and
- a summary of Adore Beauty's proposed dividend policy (see Section 4.11).

The Financial Information presented in this Prospectus has been reviewed by Grant Thornton Corporate Finance Pty Limited (Investigating Accountant) in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*, as stated in its Investigating Accountant's Report on the Financial Information. Investors should note the scope and limitations of the Investigating Accountant's Report on the Financial Information (see Section 8).

The information in this Section 4 should be read in conjunction with the risk factors set out in Section 5 and other information contained in this Prospectus.

All amounts disclosed in Section 4 are presented in Australian dollars unless otherwise noted and are rounded to the nearest \$0.1 million. Rounding in the Financial Information may result in some discrepancies between the sum of components and the totals outlined within the tables and percentage calculations.

4.2. Basis of preparation and presentation of the Financial Information

4.2.1. Overview

The Directors are responsible for the preparation and presentation of the Financial Information.

The Financial Information in this Prospectus is intended to present potential investors with information to assist them in understanding the historical financial performance, cash flows and financial position of Adore Beauty together with the statutory and forecast financial performance and cash flows.

The Statutory Historical Financial Information and Statutory Forecast Financial Information have been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards (AAS) issued by the AASB, which are consistent with IFRS and interpretations issued by the IASB.

The significant accounting policies adopted in the preparation of the Financial Information are set out in Section 4.2 and have been consistently applied throughout the financial periods presented in this Prospectus unless stated otherwise.

The Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information have been prepared solely for inclusion in this Prospectus and have been derived from the Statutory Historical Financial Information and the Statutory Forecast Financial Information adjusted for certain transactions and pro forma adjustments as described further below.

The Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information have been prepared in accordance with the recognition and measurement principles contained in AAS, other than that they include adjustments that have been prepared in a manner consistent with AAS that reflects: (i) the exclusion of certain transactions that occurred or are forecast to occur in the relevant periods; and (ii) the impact of certain transactions as if they occurred on or before 1 July 2017 in the Pro Forma Historical Financial Information and in the Pro Forma Forecast Financial Information.

Due to their nature, the Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information do not represent the actual or prospective financial position, financial performance or cash flows of Adore Beauty. Adore Beauty believes that it provides useful information as it permits investors to examine what it considers to be the underlying financial performance and cash flows of the business presented on a consistent basis with the Forecast Financial Information. This Prospectus includes Forecast Financial Information based on the specific and general assumptions of Adore Beauty.

The Financial Information is presented in an abbreviated form insofar as it does not contain all of the presentation and disclosures, statements or comparative information as required by AAS applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The information in this Section should also be read in conjunction with the management discussion and analysis in Section 4.8 and the general and specific assumptions and commentary underlying the Forecast Financial Information in Section 4.8.1 and 4.8.2.

4.2.2. Preparation of Historical Financial Information

The Statutory Historical Financial Information for FY18 and FY19 has been extracted from the general purpose (reduced disclosure requirements) financial statements of Adore Opco for the financial year ended 30 June 2019. The Statutory Historical Financial Information for FY20 has been extracted from the consolidated general purpose financial statements for 30 June 2020 for Tate Topco Pty Limited (converted into a public company and renamed Adore Beauty Group Limited). The financial statements referred to above for the years ended 30 June 2019 and 30 June 2020 were audited by Grant Thornton Audit Pty Ltd in accordance with the Australian Auditing Standards. Grant Thornton issued unmodified audit opinions and review conclusions in respect of these financial statements and the comparative periods within.

The Pro Forma Historical Financial Information has been prepared for the purpose of inclusion in this Prospectus. It has been derived from the Statutory Historical Financial Information to illustrate the revenues, net profit after tax, assets, liabilities and cash flows of the Company adjusted for certain pro forma adjustments described below.

The Pro Forma adjustments in respect of the income statements and cash flows are as described in Section 4.4.3 (Pro forma adjustments to the Statutory Historical Results and the Statutory Forecast Results) and Section 4.6.2 (Pro forma adjustments to the Statutory Historical and the Statutory Forecast net cash flow before corporate financing activities and taxation) of this Prospectus. In particular, pro forma adjustments have been made to reflect the following:

- incremental costs associated with being a publicly listed company including Board and governance costs, incremental audit, tax, legal and compliance related costs, and ASX listing fees assuming these costs were incurred over the historical periods presented;
- the removal of certain once-off transaction costs incurred in relation to the acquisition by Tate Bidco of shares in Adore Opco during the FY20 financial year;
- once-off staff retention bonuses incurred in relation to the relocation of the Adore Beauty warehouse during FY19;
- the capitalisation of IT development costs in respect of specifically identified employees in FY20 (to align with accounting treatment to be applied in respect of these same costs in 1H FY21F);
- the application of AASB 16 Leases, with specific reference to the reclassification of rental expense into interest expense on lease liabilities and depreciation of right of use asset, as if these had occurred as at 1 July 2018 (in this regard we note that a similar adjustment has not been processed as at 1 July 2017 as a result of the relocation of operations during this financial year and insignificance of this adjustment);

Section 4. Financial Information

- the impact of management loan shares granted to eligible employees under a management equity plan and the impact of shares issued to employees under employee share schemes anticipated to be implemented pre-IPO;
- a capital return from existing reserves to existing Adore Beauty shareholders pre-IPO; and
- the tax impact of the aforementioned pro forma adjustments (as applicable).

Investors should note that past results are not a guarantee of future performance.

The Pro Forma Consolidated Historical Statement of Financial Position is derived from the Statutory Consolidated Historical Statement of Financial Position, and is adjusted to reflect:

- the impact of the Offer, including costs directly attributable to the Offer offset against share capital (with the remainder expensed in Retained Earnings); and
- the tax impacts of the above adjustments.

The Pro Forma Consolidated Historical Statement of Financial Position is provided for illustrative purposes only and is not represented as being necessarily indicative of the future financial position of Adore Beauty.

4.2.3. Preparation of Forecast Financial Information

The Forecast Financial Information is presented on both a statutory and pro forma basis (where applicable) and has been prepared solely for inclusion in this Prospectus.

The basis of preparation and presentation of the Statutory Forecast Financial Information and the Pro Forma Forecast Financial Information is consistent with the basis of preparation and presentation of the Statutory Historical Financial Information and Pro Forma Historical Financial Information, respectively.

The Forecast Financial Information has been based on an assessment of the current economic and operating conditions, including the impact of the COVID-19 pandemic, and should be read in conjunction with the general and specific assumptions set out in Section 4.8.1 and Section 4.8.2, the sensitivity analysis described in Section 4.10, the risk factors described in Section 5, the significant accounting policies set out in Appendix A, and the other information in this Prospectus.

The inclusion of these assumptions and these risks is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The Directors believe the general and specific assumptions, when taken as a whole, to be reasonable at the time of preparing the Prospectus. However, the information is not fact, and investors are cautioned not to place undue reliance on the Forecast Financial Information. Investors should be aware that the timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information and that this may have a material positive or negative effect on Adore Beauty's actual financial performance, cash flows or financial position.

In addition, the assumptions upon which the Forecast Financial Information is based are by their very nature subject to significant uncertainties and contingencies, many of which will be outside the control of Adore Beauty, the Directors and management, and are not reliably predictable. Accordingly, none of the Company, its Directors and management or any other person can give investors any assurance that the outcomes disclosed in the Forecast Financial Information will arise. Events and outcomes might differ in amount and timing from the assumptions, with a material consequential impact on the Forecast Financial Information.

It is not intended that the Forecast Financial Information or other forward-looking statements be updated or revised, or that prospective financial information will be published in the future, regardless of whether new information, future events or any other factors affect the information contained in this Prospectus, except where required by law or regulation.

The Forecast Financial Information is presented on both a Statutory and Pro Forma basis. The Pro Forma Forecast Financial Information for CY20F includes actual results for 2H FY20, with the Pro Forma Forecast Financial Information for both 1H FY21F and CY20F having regard to current trading performance up until the date of lodgement of the Prospectus.

4.3. Non-IFRS measures

Certain financial measures included in this Prospectus are not recognised under AAS or IFRS. These measures are collectively referred in this Section 4.3 and under ASIC Regulatory Guide 230 Disclosing Non-IFRS Financial Information as “**non-IFRS financial measures**”.

These non-IFRS financial measures do not have a prescribed definition under AAS or IFRS and therefore may not be directly comparable to similarly titled measures presented by other entities. These should not be construed as an indication of, or an alternative to, corresponding financial measures determined in accordance with AAS or IFRS.

Although Adore Beauty believes these non-IFRS financial measures provide useful information for measuring the financial performance and condition of the business, they should be considered as supplements to the consolidated statement of profit or loss and consolidated statement of cash flow measures that have been presented in accordance with the AAS and IFRS, not as a replacement for them. Investors are cautioned not to place undue reliance on any non-IFRS financial measures included in the Prospectus.

The principal non-IFRS financial measures that are referred to in this Prospectus are discussed below.

“**Revenue**” is presented net of applicable goods and sales tax (**GST**), returns, refunds, chargebacks and discounts.

“**Cost of Sales**” is presented as the total of product costs, supplier rebates, brand contribution, freight, packaging and giveaways.

“**Gross Profit**” is presented as revenue less cost of sales.

“**Employee costs**” is presented as all personnel and related costs (including salaries, wages, share based payments, payroll tax, superannuation, leave entitlements and other related on-costs).

“**Marketing and advertising costs**” is presented as the total of all digital advertising, above the line advertising, and other marketing costs.

“**Other costs**” includes all other operating expenses not otherwise separately categorised above, and includes bank and merchant fees, website, software and IT costs, occupancy and utility costs, professional services and other sundry costs.

“**EBITDA**” is presented as net profit/(loss) before interest on debt (including interest on the lease liability recognised under AASB 16), income tax benefit/(expense), depreciation (including depreciation on the right of use asset recognised under AASB16) and amortisation (including amortisation of capitalised development costs).

“**EBIT**” is earnings before interest and tax.

“**Profit/(loss) before tax**” is presented as the net profit/(loss) before income tax expenses.

“**Working capital**” means the sum of trade and other receivables, inventory, prepayments, other assets, trade and other payables, accruals, provision for income tax and other liabilities.

“**Net operating cash flow**” represents cash flow from operating activities after the add back of non-cash items and the impact of working capital movements.

“**Net cash flow before corporate financing activities**” represents net operating cash flow after capital expenditure and lease liability movements.

“**Net cash flow**” is presented as net cash flow before Offer impacts and Offer cost, after proceeds from the drawdown/ (repayment) of debt and distributions.

“**Capital expenditure**” is a combination of capitalised developments costs and other costs primarily related to property, plant and equipment and website costs.

“**Capitalised development costs**” are related to significant enhancements to Adore Beauty’s technology that are expected to derive a future economic benefit to Adore Beauty and are capitalised in accordance with AASB 138.

Although the Directors believe these measures provide useful information about the financial performance of Adore Beauty, they should be considered as supplements to the income statements that have been presented in Section 4.4.3 and not as a replacement for them. These non-IFRS financial measures are not based on AAS, they do not have standard definitions and the way that Adore Beauty calculates these measures may differ from similarly titled measures by other companies. Readers should therefore not place undue reliance on these non-IFRS financial measures.

Section 4. Financial Information

4.4. Pro Forma and Statutory Historical and Forecast Results

4.4.1. Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Results

Table 2 summarises Adore Beauty's Pro Forma Historical Results for FY18, FY19, FY20 and CY19 and Pro Forma Forecast Results for CY20F.

Table 2: Pro Forma Historical and Pro Forma Forecast Results for FY18, FY19, FY20, CY19 and CY20F¹

A\$ millions	Notes	Pro Forma FY			Pro Forma CY	
		FY18	FY19	FY20	CY19	CY20F
Revenue		52.8	73.2	121.1	89.7	158.2
Cost of Sales		(36.8)	(51.2)	(82.6)	(62.2)	(107.4)
Gross Profit		16.0	22.0	38.5	27.5	50.8
Employee costs		(4.9)	(7.5)	(11.1)	(8.4)	(14.4)
Marketing and advertising costs		(4.5)	(6.9)	(14.0)	(9.3)	(19.6)
Other costs	2	(5.1)	(5.9)	(8.6)	(6.7)	(10.4)
EBITDA		1.4	1.6	5.0	3.2	6.4
Depreciation and amortisation	3	(0.2)	(0.8)	(1.2)	(1.1)	(1.3)
EBIT		1.2	0.8	3.8	2.1	5.1
Interest		(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Profit/(loss) before tax		1.2	0.7	3.6	2.0	5.0
Income tax expense	4	(0.3)	(0.2)	(1.1)	(0.6)	(1.5)
Profit/(loss) after tax (NPAT)		0.9	0.5	2.5	1.4	3.5

Notes:

1. The Pro Forma Historical Results are reconciled to the Statutory Historical Results (as applicable) in Table 6, noting that no Statutory Results exists for CY19 and CY20F.
2. Included in other costs are pro forma public company costs that have been included for all historical periods. In this regard, we note that FY18 and FY19 are periods in which significantly lower levels of revenue were generated, when compared to FY20 and Management's forecast expectations. As such, while public company costs have been included in all historical periods for consistency, the inclusion of these costs in FY18 and FY19 has a detrimental impact on earnings in periods where these costs would otherwise not have been incurred.
3. Depreciation and amortisation includes the depreciation of leased assets and plant and equipment, as well as the amortisation of capitalised development costs. On a pro forma historical basis, this includes depreciation in respect of right of use lease assets in FY19 and CY19 (with the impacts of AASB16 already incorporated into the Statutory Historical Results for FY20 and Forecast Pro Forma Results for CY20F), with no adjustment processed in this regard in FY18. It also includes amortisation of capitalised development costs arising in relation to the continued development of Adore Beauty's bespoke technology platforms.
4. Included in income tax expense are pro forma adjustments to remove the once-off tax effects of the creation of the Adore tax consolidated group during FY19. The effect of establishing the tax consolidated group included a resetting of tax cost bases in accordance with the allocable cost amounts, resulting in one-off tax liabilities for Adore Opco and the consolidated group.

Table 3 sets out the pro forma and statutory results for 1H FY20 and 1H FY21F. There are no pro forma adjustments to the statutory forecast for 1H FY21F.

Table 3: Pro Forma Historical, Pro Forma Forecast and Statutory Forecast Results for 1H FY20 and 1H FY21F

A\$ millions	Notes	Pro Forma		Statutory	
		1H FY20	1H FY21F	1H FY20	1H FY21F
Revenue		52.0	89.0	52.0	89.0
Cost of Sales		(35.8)	(60.6)	(35.8)	(60.6)
Gross Profit		16.2	28.4	16.2	28.4
Employee costs		(4.9)	(8.2)	(5.1)	(8.6)
Marketing and advertising costs		(5.7)	(11.4)	(5.7)	(11.4)
Other costs	2	(3.7)	(5.5)	(6.7)	(5.5)
EBITDA		1.8	3.3	(1.4)	2.9
Depreciation and amortisation	3	(0.6)	(0.7)	(0.6)	(0.7)
EBIT		1.3	2.6	(1.9)	2.2
Interest		(0.1)	(0.0)	(0.1)	(0.1)
Profit/(loss) before tax		1.2	2.5	(2.0)	2.2
Income tax expense	4	(0.4)	(0.8)	(1.2)	(0.7)
Profit/(loss) after tax (NPAT)		0.9	1.8	(3.2)	1.5

Refer to notes to Table 2.

Table 4 sets out the statutory historical results for FY18, FY19 and FY20.

Table 4: Statutory Historical Results for FY18, FY19 and FY20

A\$ millions	Notes	FY18	FY19	FY20
Revenue		52.8	73.2	121.1
Cost of Sales		(36.8)	(51.2)	(82.6)
Gross Profit		16.0	22.0	38.5
Employee costs		(4.9)	(7.6)	(11.4)
Marketing and advertising costs		(4.5)	(6.9)	(14.0)
Other costs		(3.9)	(5.6)	(10.9)
EBITDA		2.6	1.8	2.2
Depreciation and amortisation		(0.2)	(0.4)	(1.2)
EBIT		2.4	1.4	1.0
Interest		(0.0)	(0.1)	(0.1)
Profit/(loss) before tax		2.3	1.3	0.9
Income tax expense	1	(0.7)	(0.4)	(2.1)
Profit/(loss) after tax (NPAT)		1.7	1.0	(1.2)

Notes:

- The tax expense recorded in FY20 includes once-off income tax expenses incurred by Adore in establishing a tax consolidated group in this year. The effect of this involved a resetting of tax cost bases in accordance with the allocable cost amounts, resulting in one-off tax liabilities for Adore Opco and the consolidated group.

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4.4.2. Key operating and financial metrics

Table 5 sets out a summary of the key historical and forecast pro forma financial metrics for Adore Beauty.

Table 5: Historical and Forecast pro forma key financial metrics

A\$ millions	Notes	Pro Forma FY			Pro Forma CY		Pro Forma HY	
		FY18	FY19	FY20	CY19	CY20F	1H FY20	1H FY21F
Revenue growth on PCP	1	na	38.6%	65.5%	40.4%	76.3%	46.6%	71.2%
Gross margin	2	30.2%	30.0%	31.8%	30.7%	32.1%	31.1%	31.9%
Employee costs % of sales	2	9.3%	10.3%	9.1%	9.4%	9.1%	9.4%	9.3%
Marketing and advertising costs % of sales	2	8.6%	9.4%	11.5%	10.4%	12.4%	11.0%	12.8%
EBITDA margin		2.7%	2.2%	4.1%	3.6%	4.0%	3.5%	3.7%

Notes:

1. Revenue growth calculated at the net product revenue level i.e. Product Sales less chargebacks and refunds.
2. Calculated as a % of net product revenue.

4.4.3. Pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results

Table 6 sets out the pro forma adjustments that have been made to NPAT in the historical and forecast periods.

Table 6: Pro forma adjustments to the Statutory Historical Results and Statutory Forecast Results

A\$ millions	Notes	Pro Forma FY			Half Year HY	
		FY18	FY19	FY20	1H FY20	1H FY21F
Statutory NPAT		1.7	1.0	(1.2)	(3.2)	1.5
One-off warehouse staff retention bonus	1	-	0.1	-	-	-
One-off transaction costs	2	0.0	0.6	3.7	3.7	0.4
Capitalised development cost	3	-	-	0.3	0.2	-
AASB 16 impact	4	-	(0.1)	-	-	-
Public company costs	5	(1.2)	(1.2)	(1.3)	(0.6)	-
Pro forma and normalisation income tax benefit/(expense)	6	0.4	0.2	1.0	0.8	(0.1)
Pro Forma NPAT		0.9	0.5	2.5	0.9	1.8

Notes:

1. This adjustment reflects the removal of once-off staff retention bonuses incurred in relation to the relocation of the Adore Beauty warehouse during FY19.
2. This adjustment reflects the removal of specific once-off transaction costs incurred in the historical periods, arising in relation to the acquisition by Tate Bidco of shares in Adore Opco during the FY20 financial year. The adjustment in 1H FY21F relates to the expensing of a loan share arrangement entered into with qualifying managers arising in connection with the acquisition of shares in Adore Opco by Tate Bidco, with the only vesting condition being the achievement of a liquidity event (i.e. IPO).
3. This adjustment reflects the impact of the capitalisation of IT development costs in respect of specifically identified employees in historical periods, and is adjusted in order to align with accounting treatment that is to be applied in respect of these same costs from 1H FY21 onwards.
4. This adjustment reflects the application of AASB 16 Leases, with specific reference to the reclassification of rental expense into interest expense on lease liabilities and depreciation of right of use asset, as if these had occurred as at 1 July 2018. In this regard, we note that a similar adjustment has not been processed as at 1 July 2017 as a result of the relocation of operations during this financial year and insignificance of this adjustment in FY18.
5. This adjustment represents the incremental costs associated with being a publicly listed company and includes Board and governance costs, incremental audit, tax, legal and compliance related costs, and ASX listing fees assuming these costs were incurred over the historical periods presented.
6. This adjustment represents the impact of tax adjustments raised in respect of the accounting pro forma adjustments, and includes adjustments made to reverse the one-off impact of the creation of a tax consolidated group in Adore Beauty as described in Note 4 of Table 2.

4.5 Statutory Historical Statement of Financial Position and Pro Forma Historical Statement of Financial Position

4.5.1. Overview

Table 7 sets out a summary of the Statutory Historical Statement of Financial Position as at 30 June 2020, adjusted for certain pro forma adjustments to take into account the effect of the Offer proceeds, Offer costs and other items as set out below. These adjustments reflect the impact of the change in capital structure that will take place as part of the Offer, as if this occurred at 30 June 2020.

Table 7: Statutory Historical Statement of Financial Position and Pro Forma Historical Statement of Financial Position as at 30 June 2020

A\$ millions	Statutory 30 June 2020	Adj 1	Adj 2	Adj 3	Adj 4	Pro Forma 30 June 2020
Cash and cash equivalents	16.6	40.0	(16.4)	0.6	(17.0)	23.8
Trade and other receivables	2.1	-	-	-	-	2.1
Inventory	14.7	-	-	-	-	14.7
Other assets	1.7	-	-	-	-	1.7
Property, plant and equipment	1.2	-	-	-	-	1.2
Right-of-use assets	1.1	-	-	-	-	1.1
Intangibles	1.4	-	-	-	-	1.4
Deferred tax	0.9	-	4.9	-	-	5.8
Total assets	39.6	40.0	(11.4)	0.6	(17.0)	51.7
Trade and other payables	17.2	-	-	-	-	17.2
Borrowings (current)	3.2	-	-	-	-	3.2
Lease liabilities	0.6	-	-	-	-	0.6
Income tax	1.7	-	-	-	-	1.7
Employee benefits	0.7	-	-	-	-	0.7
Lease liabilities (non current)	0.7	-	-	-	-	0.7
Employee benefits (non current)	0.1	-	-	-	-	0.1
Total liabilities	24.2	-	-	-	-	24.2
Net assets	15.4	40.0	(11.4)	0.6	(17.0)	27.5
Issued capital	85.0	40.0	(6.7)	1.0	(17.0)	102.3
Reserves	(68.1)	-	-	-	-	(68.1)
Retained profits/(accumulated losses)	(1.5)	-	(4.8)	(0.4)	-	(6.7)
Total equity	15.4	40.0	(11.4)	0.6	(17.0)	27.5

Notes:

- Adjustment 1: Cash and equity increase reflecting the primary equity raised through proceeds of the Offer of \$40 million.
- Adjustment 2: Total Offer costs of \$16.4 million are expected to be incurred, of which \$9.5 million relates to costs that are directly attributable to the Offer and offset against share capital, with the remainder of \$6.8 million expensed in Retained Earnings in accordance with AAS. The tax impact of the Offer costs are expected to result in the recognition of a deferred tax asset of \$4.9 million. The Offer costs presented are costs borne solely by Adore Beauty.
- Adjustment 3: Management loan shares have been granted to eligible employees under a management equity plan. In accordance with AASB2, the cash settled component of the options is \$575,000, with the equity settled component of \$351,000 expensed through Retained Earnings. The vesting period of the options is from grant date until the date of a liquidity event (including IPO) and it therefore assumed that these options will vest on IPO. Also included in the adjustment is the impact of shares issued to eligible employees under employee share schemes anticipated to be implemented pre IPO of \$76,000.
- Adjustment 4: A capital return of \$17 million from existing cash reserves to existing Adore Beauty shareholders will be made pre-IPO.

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4.6. Pro Forma and Statutory Historical Cash Flows and Pro Forma and Statutory Forecast Cash Flows

4.6.1. Pro Forma Historical Cash Flows, Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows

Table 8 summarises the Pro Forma Historical Cash Flows, the Pro Forma Forecast Cash Flows and Statutory Forecast Cash Flows.

Table 8: Summary of Pro Forma Historical Cash Flows and Pro Forma Forecast Cash Flows

A\$ millions	Notes	Pro Forma FY			Pro Forma CY	
		FY18	FY19	FY20	CY19	CY20F
NPAT		0.9	0.5	2.5	1.4	3.5
Add back non-cash items:						
Depreciation and amortisation		0.2	0.8	1.2	1.1	1.3
Non-cash movement in share based payments/loan shares		-	-	-	-	0.2
Working capital movement		(0.6)	(0.3)	0.4	(2.1)	0.1
Net operating cash flow		0.5	1.0	4.2	0.3	5.1
Capital expenditure		(0.6)	(1.3)	(1.6)	(1.0)	(2.2)
Net movement in lease liability		-	(0.2)	(0.5)	(0.5)	(0.5)
Net cash flow before corporate financing activities		(0.1)	(0.5)	2.0	(1.2)	2.3
Offer proceeds	1	-	-	-	-	40.0
Offer costs	2	-	-	-	-	(16.4)
Proceeds of issue of shares to management	3	-	-	-	-	0.6
Capital reduction	4	-	-	-	-	(17.0)
Proceeds from issue of share capital and net borrowings		-	0.8	15.2	14.0	1.8
Distributions		(0.4)	(0.6)	(1.4)	(0.6)	(1.3)
Net cash flow		(0.4)	(0.3)	15.8	12.2	10.0

Refer to Notes to Table 7.

Table 9 summarises the Pro Forma and Statutory Historical Cash Flows and the Pro Forma Statutory Forecast Cash Flows.

Table 9: Pro Forma and Statutory Cash Flows for 1H FY20 and 1H FY21F

A\$ millions	Notes	Pro Forma		Statutory	
		1H FY20	1H FY21F	1H FY20	1H FY21F
NPAT		0.9	1.8	(3.2)	1.5
Add back non-cash items:					
Depreciation and amortisation		0.6	0.7	0.6	0.7
Non-cash movement in share based payments/loan shares		-	0.2	-	0.5
Working capital movement		(2.4)	(2.7)	(1.2)	(3.9)
Net operating cash flow		(1.0)	(0.1)	(3.8)	(1.2)
Capital expenditure		(0.6)	(1.2)	(0.6)	(1.2)
Net movement in lease liability		(0.3)	(0.3)	(0.3)	(0.3)
Net cash flow before corporate financing activities		(1.8)	(1.5)	(4.6)	(2.6)
Offer proceeds	1	-	40.0	-	40.0
Offer costs	2	-	(16.4)	-	(16.4)
Proceeds of issue of shares to management	3	-	0.6	-	0.6
Capital reduction	4	-	(17.0)	-	(17.0)
Proceeds from issue of share capital and net borrowings		13.2	(0.2)	13.2	(0.2)
Distributions		(0.1)	-	(0.1)	-
Net cash flow		11.2	5.5	8.5	4.4

Refer to Notes to Table 7.

Table 10 sets out the Statutory Cash flows for FY18, FY19 and FY20.

Table 10: Statutory Cash Flows for FY18, FY19 and FY20

A\$ millions	Statutory		
	FY18	FY19	FY20
NPAT	1.7	1.0	(1.2)
Add back non-cash items:			
Depreciation and amortisation	0.2	0.4	1.2
Non-cash movement in share based payments/loan shares	-	-	-
Working capital movement	(0.6)	(0.3)	3.0
Net operating cash flow	1.3	1.1	3.0
Capital expenditure	(0.6)	(1.3)	(1.6)
Net movement in lease liability	-	-	(0.3)
Net cash flow before corporate financing activities	0.7	(0.1)	1.0
Offer proceeds	-	-	-
Offer costs	-	-	-
Proceeds from issue of share capital and net borrowings	-	0.8	15.2
Distributions	(0.4)	(0.6)	(1.5)
Net cash flow	0.4	0.1	14.6

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4.6.2. Pro forma adjustments to the Statutory Historical and Statutory Forecast net cash flow before corporate financing activities

Table 11 sets out a reconciliation of the historical and pro forma cash flows of Adore Beauty.

Table 11: Pro forma adjustments to the Statutory Historical and Statutory Forecast net cash flow before corporate financing activities and taxation

A\$ millions	Notes	Financial Year			Half Year	
		FY18	FY19	FY20	1H FY20	1H FY21F
Statutory net cashflow before corporate financing activities		0.7	(0.1)	1.0	(4.6)	(2.6)
One-off warehouse staff retention bonus	1	-	0.1	-	-	-
One-off transaction costs	2	0.0	0.6	3.7	3.7	-
Capitalised development cost	3	-	-	0.3	0.2	-
AASB 16 impact	4	-	0.0	(0.1)	-	-
Public company costs	5	(1.2)	(1.2)	(1.3)	(0.6)	-
Pro forma and normalisation income tax benefit/(expense)	6	0.4	0.2	(1.6)	(0.4)	1.1
Pro Forma net cash flow before corporate financing activities		(0.1)	(0.5)	2.0	(1.8)	(1.5)

Refer to notes to Table 6.

4.7. Management discussion and analysis of the Historical Financial Information

The following section provides an overview of the general factors which affected operations and financial performance in FY18, FY19, FY20, CY19, CY20F, 1H FY20 and 1H FY21F and which the Directors expect may continue to affect Adore Beauty in the future.

The discussion of these general factors is intended to provide a brief summary only and does not detail all of the factors that affected Adore Beauty's historical operating and financial performance, nor other factors that may affect Adore Beauty's operating and financial performance in the future.

Management discussion and analysis presented below is based on the historical and forecast results for Adore Beauty.

4.7.1. Key business drivers

4.7.1.1 Revenue

Adore Beauty derives revenue from the online sale of beauty and personal care products via its proprietary website. Revenue represents net revenue from online sales of products, shown net of discounts provided at point of sale (including redeemed gift vouchers), charge-backs, and refunds. Product sales include a small element of shipping revenue. Adore Beauty offers free shipping to all customers, so this shipping revenue relates to customers who spend below \$50 and want to upgrade to the express shipping method.

Over the last three years, Adore Beauty has experienced significant revenue growth. Historical revenue growth was primarily driven by the acquisition of new customers and positive trending average order frequency (**AOF**) and average order value (**AOV**) from retained customer cohorts (Adore Beauty has also seen an increase customer retention rates). Revenue growth via the acquisition of new customers has been able to be achieved while still supporting a high return on advertising spend.

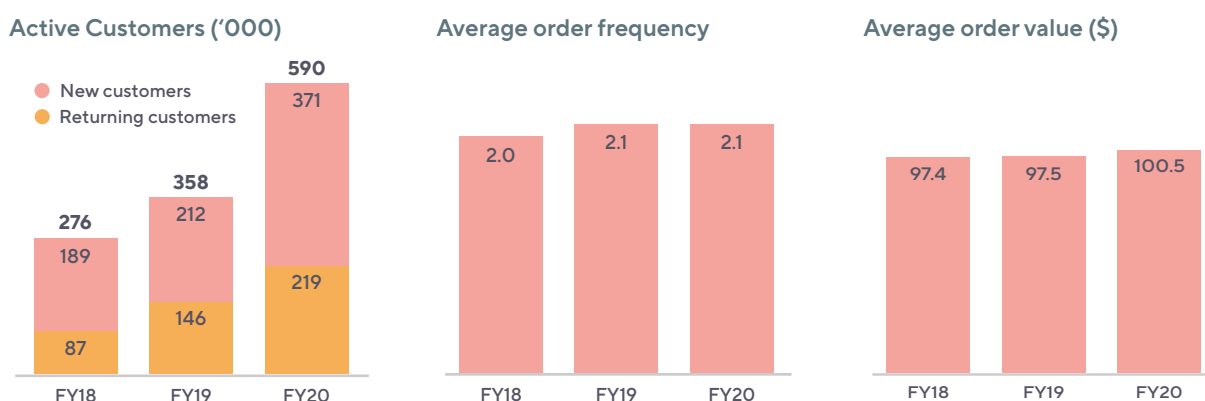
Adore Beauty has continuously invested in strategic initiatives to deliver sustainable long term growth including investments in content, targeted marketing campaigns and promotions to deliver higher AOF and AOV from returning customers, and attract new customers. Adore Beauty is focused on enhancing the customer experience on the platform and reducing freight (outbound shipping of products to customers) and delivery times leading to increased customer satisfaction and retention.

Adore Beauty analyses consumer demand data and preferences to inform its brand partnership decisions, in line with processes described in Section 3.4.2.2. In using this approach, Adore Beauty ensures that new brand offerings have proven customer demand, which in turn drives website traffic. Coupled with Adore Beauty's high engagement content-rich strategy, management believes this represents a compelling offer to customers. Management will continue to execute on this strategy and focus on attracting new customers and engaging the returning customer base to drive increased sales.

Adore Beauty has two key determinants of revenue in any period:

- Number of customer orders
 - the number of customer orders is a function of the number of Active Customers within a period and the AOV
- AOV

Figure 40: Key revenue drivers over the last three historical financials years

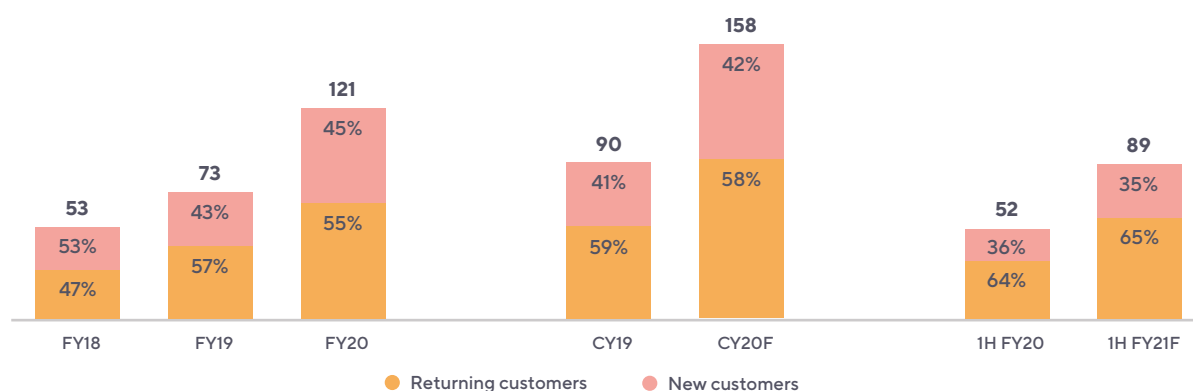


AOV and AOF are presented as the AOV and AOF across cohorts using a weighted average relative to the size of that cohort.

Number of customer orders

Customer orders are a function of the number of Active Customers multiplied by AOF. Active Customers considerably exceed the churn each year, with the number of Active Customers growing at a CAGR of 46.2% between FY18-20. Active Customers are classified as either new or returning customers. Adore Beauty defines new customers as revenue attributable to customers who are new to the financial year (or calendar year). Returning customers are Active Customers who have previously placed an order on the Adore Beauty website. Adore Beauty has seen consistent year-on-year growth in both new and returning customers. Growth in FY20, CY20 and 1H FY21F has also been favourably impacted by COVID-19 (detail further below).

Figure 41: Gross revenue over time split by new and returning customers (A\$m)¹



Note:

1. Revenue splits based on Quicksight data. New customers defined as new to the financial year, or calendar year.

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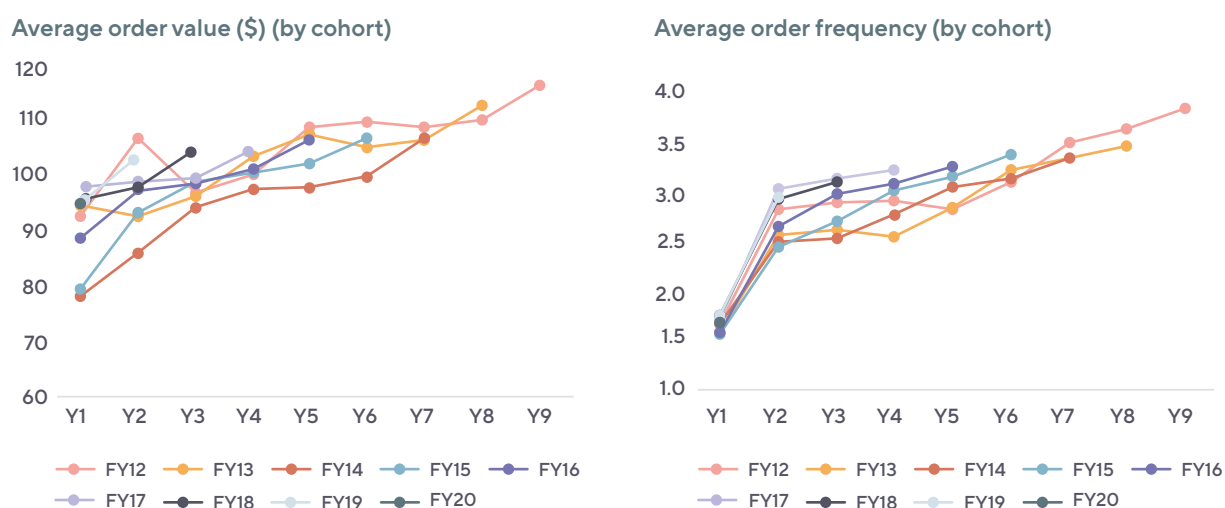
Average order frequency

AOF is the average number of purchases made by Active Customers on the Adore Beauty website over any specified period of time. Returning customers contribute to revenue growth through increasing order frequency. Adore Beauty measures AOF on a monthly and yearly basis and assesses these metrics on both a cohort and an annual weighted average basis. Over time the number of Active Customers in each cohort placing more than one order per annum has steadily increased, supported by targeted e-mail campaigns, promotions, gift vouchers and specific campaigns targeting the customer base following a period of inactivity. Increased frequency of orders is also supported by management's strategy to integrate personalised and relevant content throughout the site to encourage customer engagement.

Average order value

AOV reflects the average dollar amount spent each time a customer places an order on the Adore Beauty website. AOV is calculated excluding GST and is gross of refunds and chargebacks. Adore Beauty calculates AOV using gross revenue and actual number of orders reported. Management assesses AOV on both a cohort and an annual weighted average basis. AOV for any particular cohort of customers has increased over time. However, Adore Beauty's overall AOV has remained largely constant in aggregate terms since FY17 notwithstanding strong growth in new customers who typically have lower initial AOVs than existing customers.

Figure 42: Historical AOV and AOF by cohort over time



Retained cohorts become more valuable over time with increasing AOV and AOF.

Retained customers cohorts exhibit similar purchasing trends over time, consistently demonstrating both an increased frequency of purchase and increasing order values. This increasing trend is supported by the continued improvement in site experience and retention tactics. For instance, while the AOF for the FY12 cohort in its first year was 1.47, the AOF for the FY12 cohort in FY20 was 3.69 representing an improvement of 149.9% in AOF.

Further information about Adore Beauty's growth initiatives is provided in Section 3.8.

Like any retailer, Adore Beauty remains exposed to the changes in consumer confidence and broader macroeconomic factors that drive consumer spending patterns in the Australian Retail Market. These are discussed in greater detail in Sections 2.2.2 and 2.2.3.

4.7.1.2 Seasonality

If Active Customers were held constant from the first half (i.e. July to December) to the second half then revenue contribution in the first half would typically be similar to that in the second. However, given the underlying growth in Active Customer numbers in the second half revenue contribution has historically been higher over this period.

4.7.1.3 COVID-19

Adore Beauty has performed strongly throughout the COVID-19 pandemic as Australians have shifted to increased levels of online purchasing. The business has maintained both AOV and AOF through the COVID-19 period. However, the strong increase in new customers has translated into increased revenue. COVID-19 has also had the effect of increasing the retention rates of returning customers. Adore Beauty's diverse brand and category mix has allowed customers to buy essential products (i.e. hand wash, shampoo and conditioner), self-care products (bath products, candles, skincare products and masks) and at home devices such as at home laser hair removal machines.

Adore Beauty launched its first TVC in May 2020 to reach a broader audience during the government-imposed movement restrictions in response to the COVID-19 pandemic. This has in turn strengthened brand awareness and driven new customer acquisitions.

The business has seen a sustained impact on revenue across the four largest states by population (VIC, NSW, QLD and WA) post the COVID-19 lockdown period. Customer retention rates have increased through COVID-19 and held up, notably even in states that have eased movement and social distancing restrictions (QLD, WA and SA).

Figure 43: Monthly AOF over the COVID-19 period

(July 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)

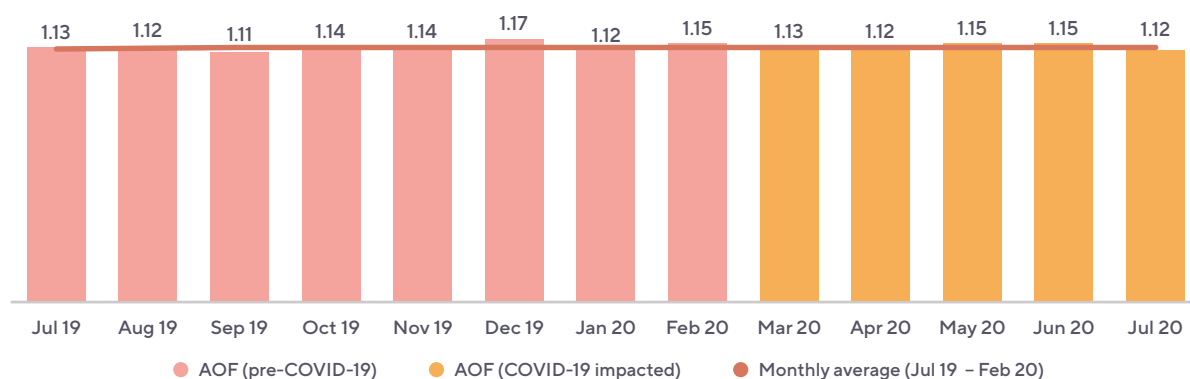


Figure 44: Monthly AOV over the COVID-19 period (\$)

(July 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)

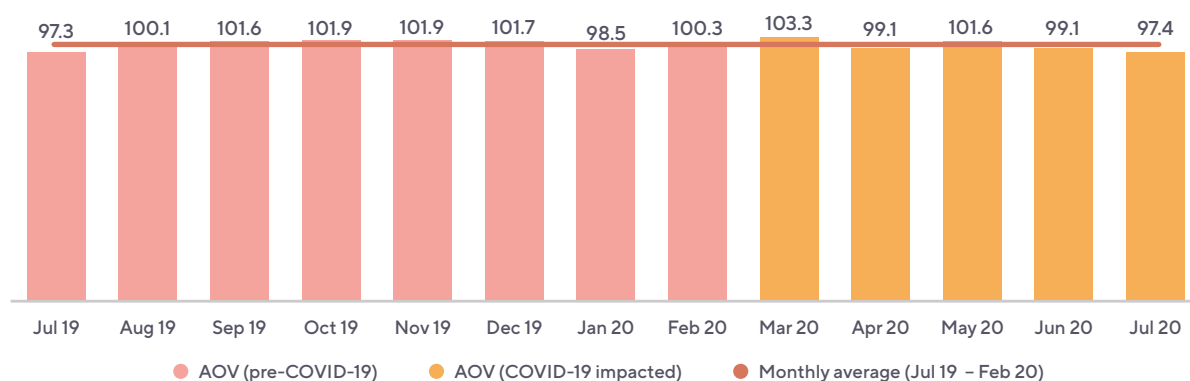
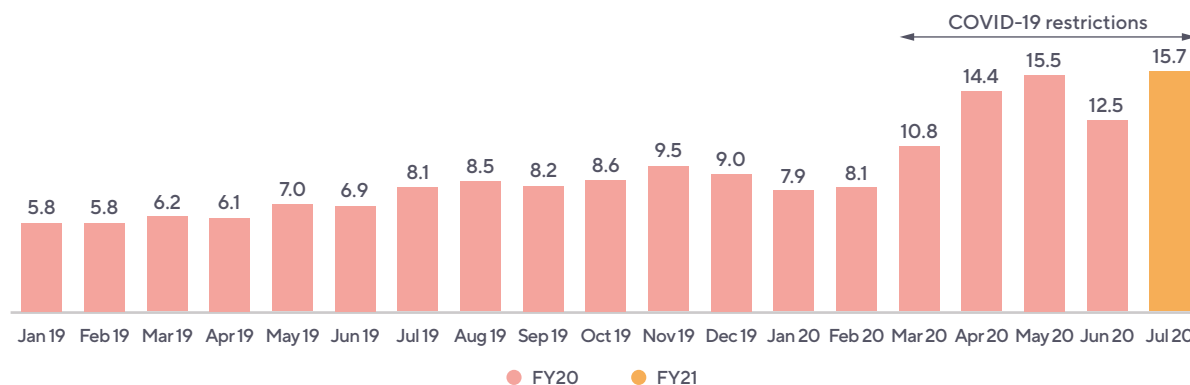


Figure 45: Monthly sales January 2019 to July 2020 (A\$m)

(July 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)

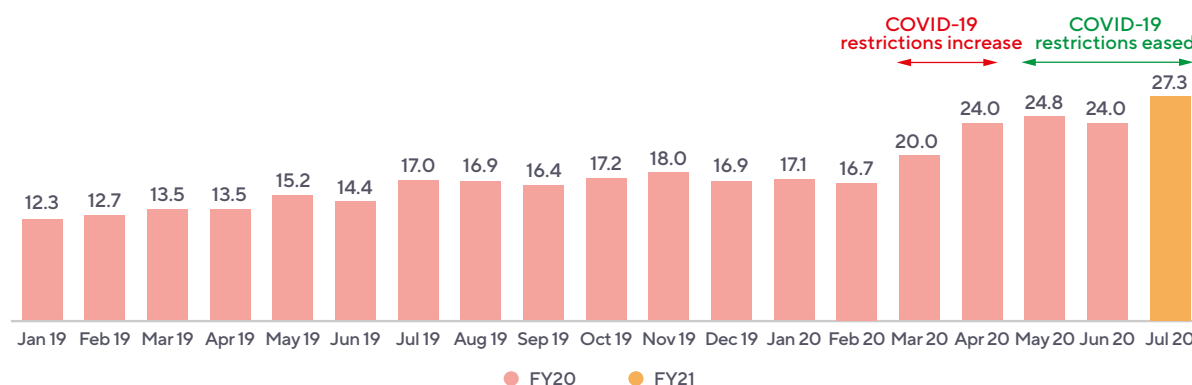


Section 4. Financial Information

Customer retention rates have increased through COVID-19, driving strong sales performance. As COVID-19 restrictions have eased, customer retention rates have remained at levels higher than pre COVID-19. This has occurred, notably, even in states that have eased movement and social distancing restrictions (QLD, WA and SA).

Figure 46: Aggregate monthly orders from returning customers January 2019 to July 2020 for Queensland, Western Australia and South Australia ('000s)

(July 2020 figures shown based on actual aggregate monthly orders)



4.7.1.4 Cost of sales

Cost of sales comprises the purchase price of goods from suppliers and the cost of shipping products from suppliers to the Adore Beauty warehouse.

Product cost of sales

Adore Beauty is an official stockist of over 230 brands in Australia and New Zealand with supply pricing for each brand and product periodically negotiated. Product costs primarily relate to the value of stock as well as product rebates received from suppliers.

Adore Beauty negotiates both spend and volume rebate arrangements, and supplier funded promotions in the form of samples and discount off product cost. The product rebates account in the profit and loss includes such agreed discounts provided by product suppliers on qualifying purchases or on the achievement of certain milestones and value of free stock supplied to Adore Beauty as part of the brands' promotions.

Over the last three years product cost of sales as a percentage of sales has remained between 59.1-61.1%, with substantial product margin benefit in FY20 due to initiatives commenced in 2H FY20 including negotiating pricing discounts and capitalising on product rebates and brand funding for pricing discounts received from suppliers.

Freight, packaging and giveaway costs

Freight costs primarily represent the outbound shipping of Adore Beauty orders to customers. The primary carrier is Australia Post and costs are determined by the destination and weight schedules agreed with Australia Post periodically under contract. Adore Beauty customers who spend over \$50 receive free Express Post within Australia. Australia Post delivers to most metropolitan and large regional areas.

Giveaway costs include free goods included with customers' purchases at Adore Beauty's discretion (e.g. Tim Tams).

Over the last three financial years, freight, packaging and giveaways as a percentage of sales has remained broadly constant between 8.9-9.2%.

4.7.1.5 Operating costs

Operating costs are presented within the consolidated income statement on a functional basis. The categories used are employee costs, marketing and advertising, bank and merchant fees, website, software, other IT costs, occupancy costs and utilities, professional services and other expenses. Adore Beauty has a combination of variable and fixed operating costs.

Variable costs primarily relate to marketing and advertising costs, employee costs and bank and merchant fees:

- Variable employee and associated costs: includes casual labour hire primarily in the warehouse and customer service functions;

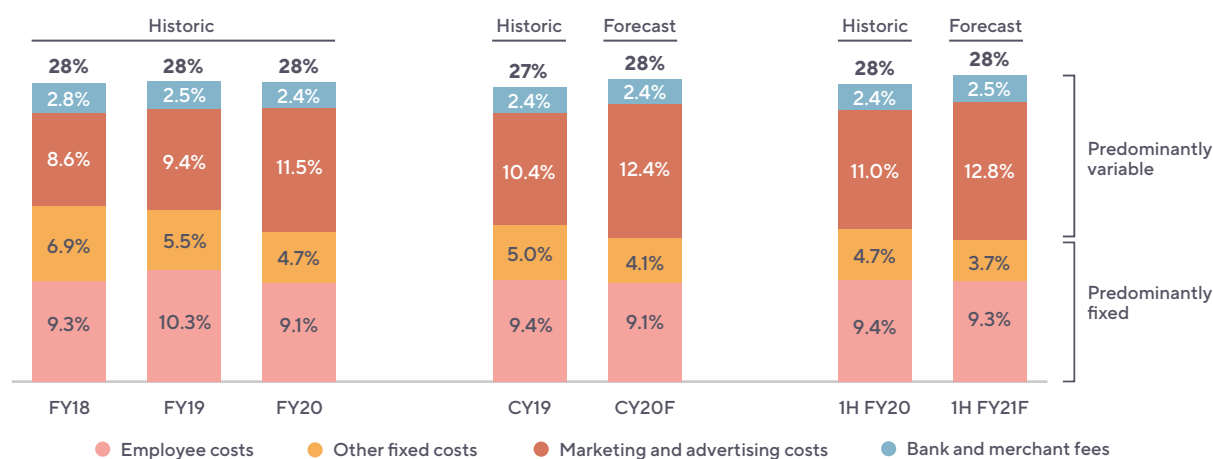
- Marketing and Advertising costs: discretionary in nature, but underpin Adore Beauty's strategy to increase its customer base and encourage repeat purchasing. Marketing and advertising expenses include spend on digital advertising including, paid and organic search, social, video, display remarketing, partnership and affiliates and general marketing activities (predominantly non-digital) including significant content marketing creative and production, talent and editorial collaborations and PR. ATL refers to above the line marketing including mass media and broad reach campaigns in TV, broadcast video on demand and other channels to be tested. To determine the success of Adore Beauty's customer acquisition and engagement strategy the Company closely monitors ROAS, CAC and CAC/LTV across channels, in channels and at campaign levels (see Section 4.8.2.5 for additional detail).
- Bank and merchant fees: relates to fees associated with payment providers when processing payments on the Adore Beauty website.
- A portion of IT costs relate to hosting and are more variable in nature and increase in line with sales.

Fixed costs relate to employee costs, occupancy costs and utilities, website, software and other IT costs, professional services and public company costs:

- Fixed employee ongoing costs: relates to permanent staff in head office, the warehouse and corporate functions;
- Occupancy costs and utilities: relates to utility costs as rental charge is now captured as part of depreciation and interest following the introduction of the AASB 16 accounting standard. Outgoings relate to lights, power, heating and taxes;
- Website, software and other IT costs: relates to Adore Beauty's website, IT infrastructure and licenses. Adore Beauty has historically expensed all internal costs related to website and IT improvements as and when they occur however is planning to capitalise qualifying development costs in line with AAS going forward;
- Professional services: includes contractor fees, HR, design, marketing and IT contractors as well as accounting, audit, consulting and legal fees; and
- Public company costs: relates to incremental annual costs associated with being a public company.

Adore Beauty has recently invested in establishing an appropriate level of overheads to provide a scalable platform capable of supporting the business in its next phase of growth as an ASX-listed company.

Figure 47: Operating expense as a percentage of revenue



4.7.1.6 Depreciation and Amortisation

Depreciation is a non-cash expense that predominantly relates to the ongoing use of Adore Beauty's fixed asset base, including items such as IT equipment and office furniture. Depreciation expense is based on existing useful life, with any new capital expenditure being depreciated over its useful life in accordance with Adore Beauty's accounting policies. Pro forma depreciation expense also includes the depreciation of the right of use asset recognised under AASB 16 relating to Adore Beauty's premise lease for periods in which the accounting standard was not yet applicable (with the exception of FY18).

Amortisation is a non-cash expense that relates to intangible assets, such as capitalised costs incurred in relation to the Adore Beauty website. Amortisation expense is based on an existing useful life profile, with any new software developments being amortised over their respective useful life in accordance with Adore Beauty's accounting policies.

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4.7.1.7 Working capital

As Adore Beauty has minimal trade receivables, inventory and trade payables are the key drivers of working capital. Adore Beauty holds inventory for its products that are sold through the Adore Beauty website.

Adore Beauty has historically reinvested earnings in inventory to improve availability and range. This has partially been facilitated by the ability of the business to source external working capital financing and moving key suppliers from consignment terms to a broader product range on credit terms. Suppliers remain a key source of financing in the business.

Adore Beauty's peak working capital funding requirement is typically in the months of October to December, in line with the peak sales periods in the year.

4.7.1.8 Capital expenditure

Ongoing capital expenditure largely relates to website, software and warehouse management system capital expenditure.

4.7.1.9 Tax

Adore Beauty operates in Australia, which has a corporate tax rate of 30%. Adore Beauty's New Zealand earnings are taxed at the New Zealand corporate tax rate of 28%.

4.7.2. Year-on-year management discussion and analysis

4.7.2.1 Pro Forma Historical Results and Cash Flows: FY19 compared to FY18

Table 12: Pro Forma Historical Results and Cash Flows: FY19 compared to FY18

A\$ millions	FY18	FY19	Change	% Change
Revenue	52.8	73.2	20.4	38.6%
Cost of Sales	(36.8)	(51.2)	(14.4)	39.1%
Gross Profit	16.0	22.0	6.0	37.5%
Employee costs	(4.9)	(7.5)	(2.6)	53.0%
Marketing and advertising costs	(4.5)	(6.9)	(2.4)	52.4%
Other costs	(5.1)	(5.9)	(0.8)	15.5%
EBITDA	1.4	1.6	0.2	14.8%
Depreciation and amortisation	(0.2)	(0.8)	(0.6)	325.7%
EBIT	1.2	0.8	(0.4)	(35.2%)
Interest	(0.0)	(0.1)	(0.1)	268.7%
Profit/(loss) before tax	1.2	0.7	(0.5)	(44.4%)
Income tax expense	(0.3)	(0.2)	0.1	(44.0%)
Profit/(loss) after tax (NPAT)	0.9	0.5	(0.4)	(44.6%)
Revenue growth on PCP	na	38.6%		
Gross margin	30.2%	30.0%		
Employee costs % of sales	9.3%	10.3%		
Marketing and advertising costs % of sales	8.6%	9.4%		
EBITDA margin	2.7%	2.2%		
EBITDA	1.4	1.6		
Less: Change in net working capital	(0.6)	(0.3)		
Operating cash flow	0.8	1.3		
Less: Capital expenditure	(0.6)	(1.3)		
Cash flow before leases, financing and taxation	0.3	0.1		

Revenue

Total revenue increased by \$20.4 million from \$52.8 million to \$73.2 million (up 38.6%). This was primarily the result of an increase in the size of the Active Customer base, driven by improved AOV and AOF across retained cohorts from various campaigns targeting the Company's returning customer base and ensuring customer satisfaction. New customer acquisition continued to build with an increase in marketing and advertising spend paired with some growth in campaign frequency and audience targeting.

Gross Profit

Gross profit increased by \$6.0 million to \$22.0 million in FY19, from \$16.0 million in FY18. Gross profit margin remained broadly flat over the period despite product cost of sales increasing from 60.6% of sales to 61.1% of sales due to a shift in product mix towards lower margin electrical products. Higher levels of promotional discounting delivered revenue growth benefits and impacted gross margin.

Employee costs

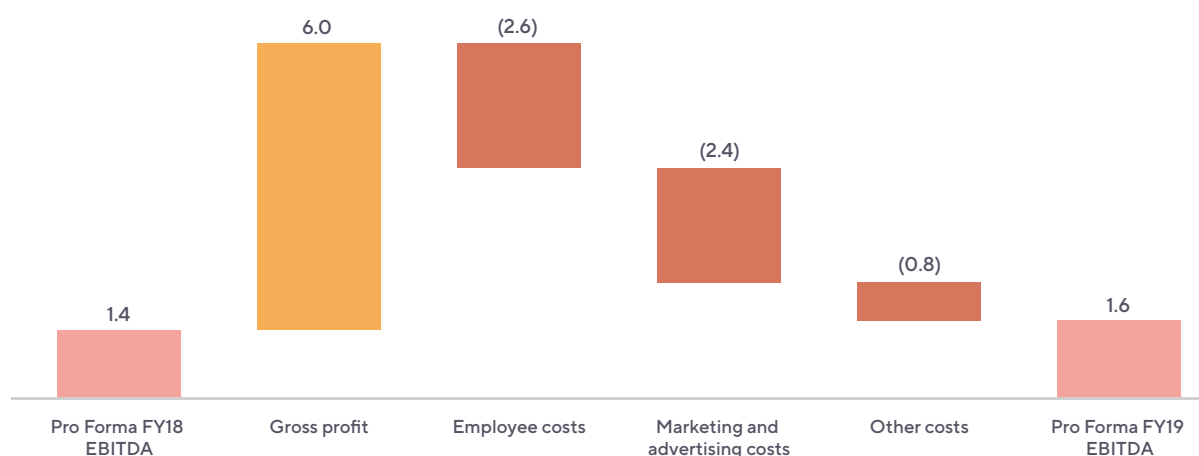
Increase in employee costs from \$4.9 million in FY18 to \$7.5 million in FY19 represented an increase in employee costs as a percentage of sales from 9.3% to 10.3%. This was driven by the Company's accelerated investment in headcount as well as the full year impact of prior year hires (including Chief Marketing Operator (**CMO**) and Brand Manager).

Over this period Adore Beauty was pursuing strategic initiatives to increase capability and capacity to support growth across the brands, marketing and customer service functions in order to deliver on improved customer experience. Given the warehouse relocation in FY19, the Company also experienced an increase in staff costs associated with this move.

Marketing and advertising costs

In FY18 marketing and advertising accounted for \$4.5 million compared to \$6.9 million in FY19. This translated into an increase of marketing and advertising as a percentage of sales from 8.6% in FY18 to 9.4% in FY19 and was also reflected in an increase in CAC (including ATL) from \$22.2 in FY18 to \$30.1 in FY19. This increase in marketing and advertising was driven by a refresh of the marketing strategy following the hire of a CMO, including the engagement of a professional media buying agency to enhance market reach and channel execution leveraging their global experience. There was also a significant increase in the volume of campaigns and targeted lifecycle and trigger based customer marketing output to enhance customer value and LTV as new customer volumes grew.

EBITDA, EBIT and NPAT (\$m)



On a pro forma basis, EBITDA was broadly flat at \$1.4 million in FY18 and \$1.6 million in FY19. This represented a decline in EBITDA margin from 2.7% to 2.2% as a result of three key investments across the financial year. These investments were an increase in the number of personnel as Adore Beauty continued to hire key divisional capabilities (including employees), increased marketing and advertising costs and costs associated with moving to the new warehouse.

An increase in professional fees in FY19 by \$0.2 million reflected hiring of contracted and consulting personnel for functional roles including for the role of part-time Chief Financial Officer (**CFO**), Human Resources Manager, and IT professionals.

On a pro forma basis NPAT decreased from \$0.9 million in FY18 to \$0.5 million in FY19, largely as a result of the above-mentioned factors, together with the impact of a \$0.6m increase in depreciation and amortisation in FY19 driven by increased investment in website development and warehouse related plant and equipment. This trend was partially offset by a reduced income tax expense. Finance expense (net) increased due to AASB 16 implementation in FY18.

Section 4. Financial Information

Change in net working capital

Net working capital in the business is driven primarily by movements in inventory holdings and related trade payables. The change in net working capital of \$0.3 million in FY19 primarily reflects:

- an increase of \$1.1 million in inventory due to investment in new products including electrical products to support growth;
- offset by an increase of \$1.8 million in trade and other payables due to changes in supplier trading terms agreed in December 2018;
- a decrease in provision for income tax of \$0.7 million; and
- a decrease in gift voucher giveaway of \$0.3 million.

Capital Expenditure

Capital expenditure increased by \$0.7 million in FY19 from \$0.6 million in FY18 to \$1.3 million in FY19. This was driven by a number of initiatives including the upgrade of the warehouse and warehouse systems in FY19 to support the Company's next stage of growth, investment in the Company's website framework and investment in BeautyWise.

4.7.2.2 Pro Forma Historical Results and Cash Flows: FY20 compared to FY19

Table 13: Pro Forma Historical Results and Cash Flows: FY20 compared to FY19

A\$ millions	FY19	FY20	Change	% Change
Revenue	73.2	121.1	47.9	65.5%
Cost of Sales	(51.2)	(82.6)	(31.4)	61.2%
Gross Profit	22.0	38.5	16.6	75.5%
Employee costs	(7.5)	(11.1)	(3.5)	46.9%
Marketing and advertising costs	(6.9)	(14.0)	(7.1)	102.2%
Other costs	(5.9)	(8.6)	(2.7)	45.1%
EBITDA	1.6	5.0	3.3	204.8%
Depreciation and amortisation	(0.8)	(1.2)	(0.4)	42.0%
EBIT	0.8	3.8	3.0	376.9%
Interest	(0.1)	(0.1)	0.0	(0.9%)
Profit/(loss) before tax	0.7	3.6	3.0	452.7%
Income tax expense	(0.2)	(1.1)	(0.9)	492.0%
Profit/(loss) after tax (NPAT)	0.5	2.5	2.1	437.4%
Revenue growth on PCP	38.6%	65.5%		
Gross margin	30.0%	31.8%		
Employee costs % of sales	10.3%	9.1%		
Marketing and advertising costs % of sales	9.4%	11.5%		
EBITDA margin	2.2%	4.1%		
EBITDA	1.6	5.0		
Less: Change in net working capital	(0.3)	0.4		
Operating cash flow	1.3	5.4		
Less: Capital expenditure	(1.3)	(1.6)		
Cash flow before leases, financing and taxation	0.1	3.7		

Revenue

Total revenue increased by \$47.9 million from \$73.2 million to \$121.1 million (up 65.5%). Growth in top line was underpinned by consistent growth in new customer acquisition and retention in the pre-COVID-19 trading period reflecting the positive impact to top line arising from increased marketing and advertising spend from prior periods. In February 2020, prior to the impact of the COVID-19 pandemic, revenue was up 40.3% compared to the February 2019, demonstrating Adore Beauty's ability to deliver strong and consistent growth.

The Company also benefited from COVID-19 pandemic tailwinds in 2H FY20 which accelerated new customer acquisition. Growth during this period was also supported by additional investment in marketing and advertising including the launch of the Company's first TV campaign. The timing of the TV campaign enabled the Company to capitalise on reaching a broader audience during the 'stay at home' government guidelines. COVID-19 impacts also drove increased demand for the Company's essential products (e.g. hand wash, shampoo, conditioner, etc.) and self-care products (e.g. bath products, candles and skincare products).

Gross Profit

Gross profit increased by \$16.6 million to \$38.5 million in FY20, from \$22.0 million in FY19 and gross profit margin increased by 1.8% from 30.0% in FY19 to 31.8% in FY20. Gross profit margin increase was driven by an increase in product margin from 38.9% in FY19 to 40.9% in FY20 and a 0.1% decline in the cost of doing business, with these improvements driven by successfully implementing strategic management initiatives in 2H FY20.

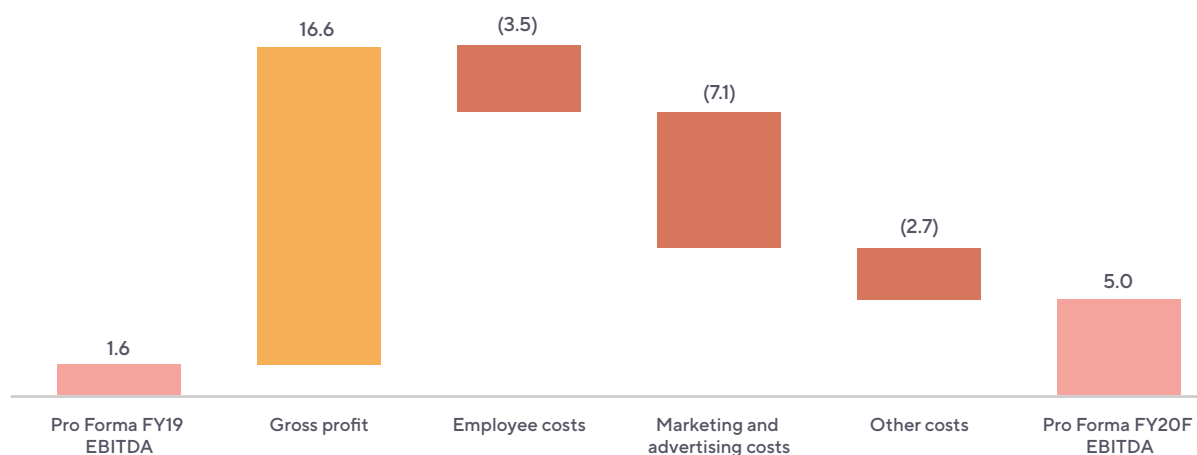
Employee costs

Increase in employee costs from \$7.5 million in FY19 to \$11.1 million in FY20. This was driven by an increase in the number of employees (27 hires over the period) across all functions, primarily brands, marketing, customer service and warehouse. Additionally, there was an increase in warehouse expenses during the COVID-19 period for which penalty rates were incurred together with the full year impact of the FY19 new hires. Employee costs as a percentage of sales decreased from 10.3% in FY19 to 9.1% in FY20 as revenue growth accelerated over the COVID-19 period.

Marketing and advertising costs

Marketing and advertising costs increased by \$7.1 million from \$6.9 million in FY19 to \$14.0 million in FY20. As a percentage of sales, marketing and advertising spend increased by 2.1% from 9.4% to 11.5%. The company experienced an increase in CAC (including ATL) from \$30.1 in FY19 to \$34.9 in FY20. This was driven by ongoing marketing and advertising spend supporting sustained and continued new customer growth. Further initiatives which aimed to enhance new customer acquisitions included the launch of Adore Beauty operations in New Zealand, growing to almost 50,000 customers within 12 months.

EBITDA, EBIT and NPAT (\$m)



On a pro forma basis, EBITDA increased from \$1.6 million in FY19 to \$5.0 million in FY20 (up 204.8%) representing an increase in EBITDA margin from 2.2% to 4.1%. The main driver of this increase was the increase in revenue and gross profit over the period. While overall total operating costs increased, employee costs as a percentage of sales decreased. While the quantum of other costs increased by \$2.7 million, other costs as a percentage of sales decreased. The EBITDA margin increase over this period demonstrates the operating leverage within the business.

On a pro forma basis NPAT increased from \$0.5 million in FY19 to \$2.5 million in FY20 primarily driven by the factors discussed in the above commentary.

Section 4. Financial Information

Change in net working capital

The change in net working capital of \$0.4 million in FY20 was primarily a result of:

- an increase in trade and other receivables of \$1.0 million;
- an increase of \$7.6 million in inventory due to rapid continued investment in products to support growth;
- offset by an increase of \$8.5 million in trade and other payables relating to inventory and freight as growth accelerates;
- an increase of \$0.1 million in provisions for income tax; and
- an increase of \$0.6 million in employee entitlements.

Capital Expenditure

Capital expenditure increased by \$0.4 million from \$1.3 million in FY19 to \$1.6 million in FY20 as a result of the ongoing investment into the BeautyWise platform, the launch of Adore Beauty into the New Zealand market, development of the mobile application and preliminary work for the migration onto the BigCommerce platform.

4.8. Management discussion and analysis of the Forecast Financial Information and best estimate assumptions underlying the Forecast Financial Information

The Forecast Financial Information is based on best estimate assumptions concerning future events. In preparing the Forecast Financial Information, Adore Beauty has analysed historical performance and cash flows and applied assumptions to estimate the future performance and cash flows for CY20F and 1H FY21F.

The Directors believe all the assumptions, when taken as a whole, are reasonable at the time of preparing the Prospectus and has prepared the Forecast Financial Information with due care and attention. However, actual results are likely to vary from those forecast, and such variation may be materially positive or negative. Many of the assumptions on which the Forecast Financial Information is based are beyond the control of the Directors and management of Adore Beauty and are subject to significant uncertainty.

As such none of Adore Beauty, its Directors, management or any other person can provide any assurance that the Financial Forecast Information or any prospective statement contained in this Prospectus will be achieved.

The assumptions set out below should be read in conjunction with the risks set out in Section 5, the sensitivity analysis set out in Section 4.10 and the Independent Limited Assurance Report set out in Section 8.

4.8.1. General assumptions underlying the Forecast Financial Information

The following general assumptions have been made in preparing the Forecast Financial Information:

- no material changes in the competitive and operating environments of the Australian online market for beauty and personal care products in which Adore Beauty operates; in particular that the impact of COVID-19 from a global and Australian perspective continues in a similar way to that experienced so far in 2020. Refer to Section 4.7.1.3 for additional considerations on the impact of COVID-19 on the recent trading performance of the business and the specific assumptions noted in Section 4.8.2.2 which consider the expected impact of the COVID-19 pandemic;
- no material changes in government legislation, regulatory requirements or other government policy in any country in which Adore Beauty operates that will have a material negative impact on the financial performance, cash flows, financial position, accounting policies, financial reporting or disclosures of the Group;
- no significant deviations from current market expectations of economic and market conditions under which Adore Beauty operates;
- no changes in current Australian tax legislation;
- no material change in key personnel, including key management personnel. It is also assumed that Adore Beauty will maintain its ability to recruit and retain the personnel required to support the future growth of Adore Beauty;
- no material employee relations disputes or other disturbances;
- no material industry strikes or other disruptions to Adore Beauty's supply chain, or business operations impacting the continuity of Adore Beauty's operations;
- no material fine, penalty, dispute, litigation or other contingent liabilities to arise or be settled to the detriment of Adore Beauty;

- no material acquisitions, disposals, restructuring or investments;
- no material change in Adore Beauty's corporate or capital structure other than the transactions contemplated under the terms of the Offer set out in this Prospectus;
- no material amendments to any material contract, agreements or arrangements relating to Adore Beauty's business or intellectual property;
- no changes in applicable AAS, IFRS, other mandatory requirements or Corporations Act which could have a material effect on Adore Beauty's reported financial performance or cash flows, financial position, accounting policies, financial reporting and disclosures;
- none of the risks listed in Section 5 eventuate, or if they do, none of them has a material adverse impact on the operations of Adore Beauty; and
- the Offer proceeds are received in accordance with the timetable set out in the Key Dates on page 4 of this Prospectus.

4.8.2. Specific assumptions underlying the Forecast Financial Information

The Forecast Financial Information has been prepared by the Directors based on an assessment of Adore Beauty's existing business operations, online platform and head office functions. In preparing the Forecast Financial Information, the Directors have taken into account the year to date trading performance and cash flows of the entity and the current market conditions.

The specific, best estimate assumptions applied by the Directors in preparing the Forecast Financial Information for the forecast period are described below.

4.8.2.1 Revenue assumptions

Revenue is forecast based on the number of customer orders and AOV. The total number of orders is based on the number of Active Customers (new and returning customers) multiplied by AOV. In preparing the revenue forecast, management has considered historical trends. Forecast new customer orders are based on a trend line of historical new customers acquired each month using pre-COVID-19 historical trends. Returning customer orders are forecast by applying retention rates to customer orders. Retention rates are applied to individual customer cohorts, with observed historical retention behaviour over time applied to more recently acquired cohorts.

AOV and AOF are forecast for each cohort based on the historical average observed by prior cohorts with the same maturity profile. AOV and AOF are forecast to remain consistent with the historical observed pattern of behaviour.

4.8.2.2 COVID-19

Management have adjusted for the favourable COVID-19 impact separately in determining the forecast number of customer orders for returning and new customers. In doing so, management has based their assumptions on trends observed over the COVID-19 affected period (March 2020 – June 2020) by assessing the variance to the trend line across each individual Australian state to determine the impact on new and returning customers for the forecast period. Management estimates that the number of customer orders will continue to be favourably impacted by COVID-19, however to a lesser extent than what was observed during the height of the pandemic (March 2020 – June 2020). Management has forecast that the number of customer orders will commence trending back to pre-COVID-19 growth levels from 1 September 2020 to 31 December 2020.¹

Following this period, it is management's expectations that Adore Beauty will continue to trade at more sustainable levels i.e. higher levels than what was experienced pre COVID-19 but lower than trading levels experienced during the height of COVID-19. This expectation is based on the anticipated permanent uplift in the online buying environment and the retention of higher than normal levels of new customers acquired over this period.

1. Management note the recent announcement from the Victorian Government concerning the continuation of restrictions and are considering if this will have a material impact on the assumptions underlying the Forecast Financial Information.

Section 4. Financial Information

Figure 48: Monthly sales January 2019 to December 2020 (A\$m)

(July and August 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)

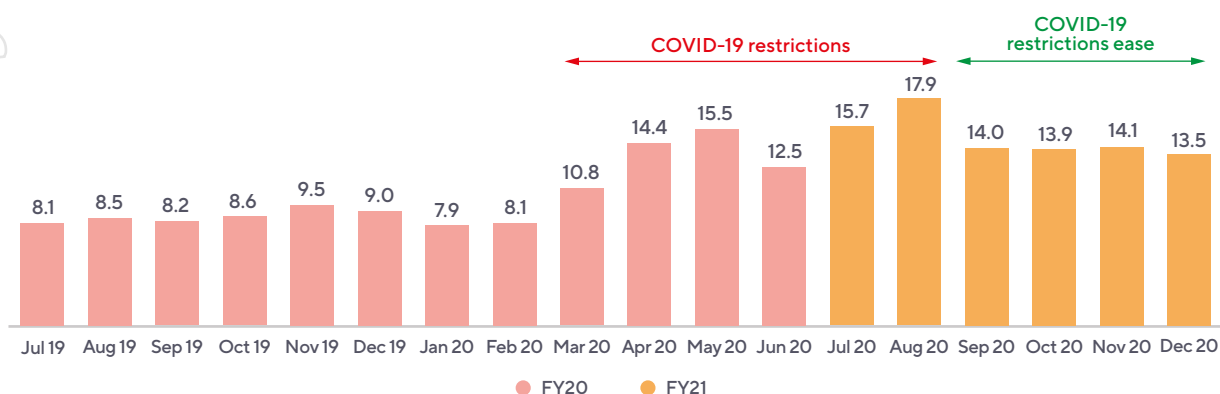


Figure 49: Monthly new customers acquired ('000s)

(July and August 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)

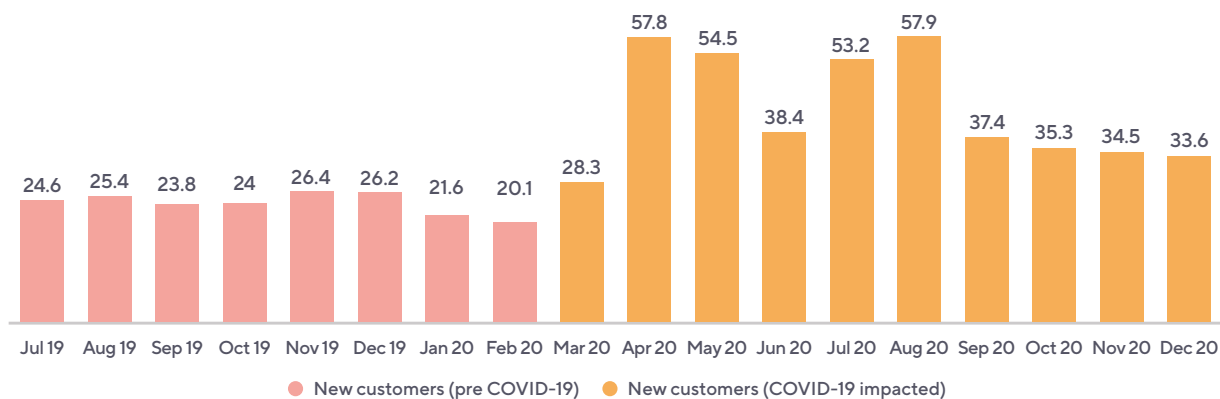
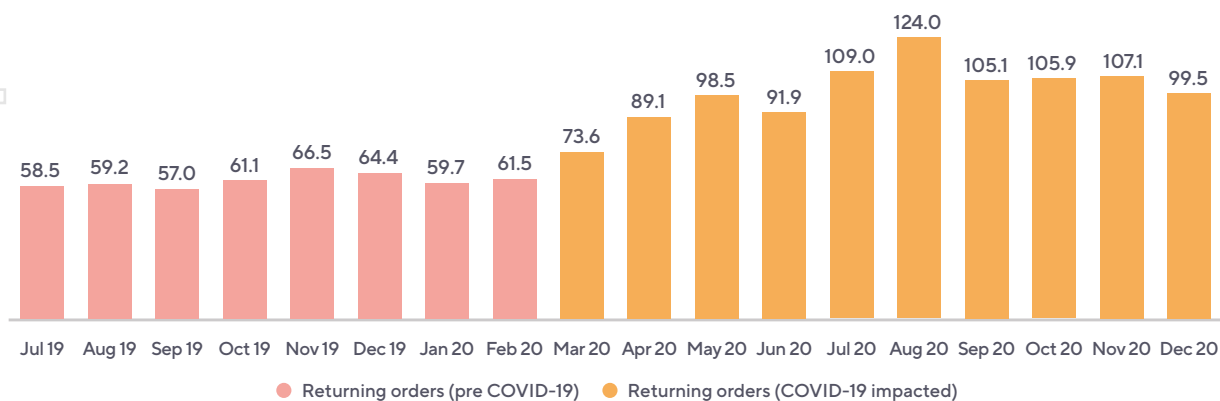


Figure 50: Monthly returning customer orders ('000s)

(July and August 2020 figures presented as management forecast. For actual results see the Trading Update in Section 4.9)



4.8.2.3 Gross profit assumptions

Forecast gross profit margins are based on historical trends, with improvements, in the forecast period expected as management continue to implement a number of strategic initiatives to drive increased, sustainable profitability. These initiatives include the negotiation of supplier pricing terms and rebates, moving away from generic discounting towards tailored promotional activities and an increased focus on brand-funded discounts. A “brand-funded discount” occurs when a brand contributes some, or all, of the discounting in relation to its products which is passed onto customers during the sale period. There are also a number of longer term initiatives discussed in Section 3.8.2 (eg. private label) that are targeted at further driving gross profit margin expansion over time.

Management forecast that margin improvement from product will be partly offset by an increase in other cost of sales including freight, packaging and giveaways. Management has forecast that packaging and giveaways will remain constant as a percentage of sales across the forecast period, with an increase in freight costs from 8.0% in 1H FY20 to 8.2% in 1H FY2F anticipated following a price rise on express orders from Australia Post commencing July 2020.

4.8.2.4 Employee cost assumptions

Due to Adore Beauty’s business model as a pureplay online retailer, the majority of employee costs are fixed and do not grow in line with sales and are driven by permanent head count.

After investing in a number of senior hires in recent years and making allowance for remuneration as part of expected public company costs, management does not expect that further material investment in people costs will be required to achieve forecast growth. Forecast fixed wages reflect an estimate of the remuneration costs of 21 new hires this includes the senior management described in Section 4.8.4 and the completion of hires in support teams such as data analytics and a brand funding manager.

4.8.2.5 Marketing and advertising cost assumptions

Marketing spend relates to fees associated with various marketing activities including e-mail campaigns, selected agency fees, printing, promotional materials, photography, filming and production and subscriptions to marketing automation services. Advertising costs, which constitute the majority of the marketing and advertising spend, relates primarily to SEM and other digital costs (such as social, affiliate and display) which are mostly channel and media driven. Also included in these costs are ATL costs, which include costs to be incurred in relation to TVC and other broad reach marketing channels or media for the purpose of developing brand awareness and preference.

Management forecast marketing and advertising expense based on historical spend and trends of spend efficacy or opportunity and adjust for savings or increases on the prior year. Adore Beauty has specific goals and KPI’s for each channel that inform and support the return on investment required from marketing and advertising spend. This remains a focus for management as the business continues to pursue growth.

ATL refers to above the line advertising including mass media and broad reach campaigns in TV, broadcast video on demand and other channels to be tested. ATL spending is forecast to increase over the forecast period, with TV commercials expected to remain a prominent component of marketing and advertising spend, reflecting management’s commitment to invest in advertising to reach a larger audience as a result of COVID-19.

Management forecast that over time as the business scales, brands will increasingly start paying a proportion of the marketing and advertising spend. This can be applied to reduce Adore Beauty’s marketing and advertising spend in absolute terms as well as marketing and advertising as a percentage of sales.

Additionally, management has identified further areas of opportunity for improvement in marketing effectiveness to reduce marketing and advertising as a percentage of sales. These initiatives include:

- a reduction in new customer revenue as percentage of total revenue as the business scales and an improvement in ROAS as a result of better returns being delivered on repeat targeted marketing;
- increasing analytical sophistication allowing acquisition spend and investment targeting in real time. This will drive customer LTV which management believe will grow cohort CAC/LTV multiples and repeat customer revenue; and
- further developments such as the Adore Beauty App, growth in brand awareness and reduction in repeat customer paid marketing to engaged users to increase website traffic and revenue derived from lower cost channels such as Direct, Organic Search and Email.

Section 4. Financial Information

4.8.2.6 Other variable costs (bank and merchant fees) assumptions

Other variable costs relate to bank and merchant fees. These costs are forecast as a percentage of sales and are estimated to increase over the forecast period as a result of an anticipated change in the mix of fees as the proportion of Afterpay sales increases, attracting higher costs.

4.8.2.7 Other fixed costs assumptions

Website, software and other IT costs relate to hosting, IT security, software subscription and website costs. During the forecast period Adore Beauty plans to migrate onto the BigCommerce platform, with the timing of this move anticipated to be completed in October 2020.

There is a small component of IT costs (hosting) which is variable in nature and is forecast based on a percentage of sales.

Rent and other occupancy costs largely relate to utility costs as rental charges are now captured as part of depreciation and interest following the introduction of the AASB 16 accounting standard. Utility costs are expected to decrease as a percentage of revenue as the business scales and grows into the current space occupied.

Professional services fees relate to fees paid to external services firms for audit, legal and consulting fees. These costs are estimated to decline over the forecast period.

Other expenses are fixed in nature and include cleaning, insurance, staff amenities, sundry warehouse costs and other general expenses. These costs are forecast to be in line with historical expenses.

Adore Beauty has recently invested in establishing an appropriate level of overheads to provide a scalable platform capable of supporting the business in its next phase of growth as an ASX-listed company. Given the relatively high proportion of operating expenditure which is fixed in nature, Adore Beauty believes it has significant operating leverage, with revenue and gross profit growth expected to drive higher EBITDA margins. Adore Beauty does not anticipate a significant increase in fixed costs in the prospectus forecast period.

4.8.2.8 Depreciation and amortisation assumptions

Forecast based on the depreciation of fixed assets for both existing assets and forecast capital expenditure, including website enhancements, capitalised IT development costs and depreciation on the right of use asset recognised under AASB 16.

4.8.2.9 Working capital assumptions

Working capital balances are forecast based on historical trends, with inventory levels forecast to support sales growth and trade payables balances forecast based on current trading terms with creditors.

4.8.2.10 Capital expenditure assumptions

Capital expenditure includes expenditure on systems and website development, and the launch of the Adore Beauty mobile application. Management does not estimate there to be any material capital expenditure items over the forecast period. The 1H FY21F and CY20F forecast assumes capital expenditure is in line with that of 1H FY20 and CY19 respectively.

4.8.3. Pro Forma Forecast Results and Cash Flows: CY20F compared to CY19

Table 14: Pro Forma Forecast Results and Cash Flows: CY20F compared to CY19

A\$ millions	CY19	CY20F	Change	% Change
Revenue	89.7	158.2	68.5	76.3%
Cost of Sales	(62.2)	(107.4)	(45.2)	72.7%
Gross Profit	27.5	50.8	23.2	84.4%
Employee costs	(8.4)	(14.4)	(6.0)	71.7%
Marketing and advertising costs	(9.3)	(19.6)	(10.3)	111.1%
Other costs	(6.7)	(10.4)	(3.7)	55.3%
EBITDA	3.2	6.4	3.2	100.4%
Depreciation and amortisation	(1.1)	(1.3)	(0.2)	21.1%
EBIT	2.1	5.1	3.0	141.0%
Interest	(0.1)	(0.1)	0.0	(19.9%)
Profit/(loss) before tax	2.0	5.0	3.0	153.3%
Income tax expense	(0.6)	(1.5)	(0.5)	42.0%
Profit/(loss) after tax (NPAT)	1.4	3.5	2.6	294.7%
Revenue growth on PCP	40.4%	76.3%		
Gross margin	30.7%	32.1%		
Employee costs % of sales	9.4%	9.1%		
Marketing and advertising costs % of sales	10.4%	12.4%		
EBITDA margin	3.6%	4.0%		
EBITDA	3.2	6.4		
Non-cash movement in share based payments/loan shares	-	-		
Less: Change in net working capital	(2.1)	0.1		
Operating cash flow	1.1	6.5		
Less: Capital expenditure	(1.0)	(2.2)		
Cash flow before leases, financing and taxation	0.0	4.3		

Revenue

Revenue is forecast to increase by \$68.5 million from \$89.7 million in CY19 to \$158.2 million in CY20F up 76.3%, following the significant impact of COVID-19 during CY20F. The growth is attributable to an expected increase in Active Customers from 404,033 in CY19 to 724,459 in CY20F from both higher number of new customers and increased customer retention rates. New customer acquisitions are expected to remain elevated through 2H CY20F as a result of COVID-19 tailwinds, further supported by the realisation of benefits from ongoing growth initiatives implemented by the Company. These growth initiatives primarily relate to content creation initiatives and targeted marketing campaigns and promotions. Specifically, the Company has assumed continued optimisation of its marketing strategy to support top line growth. Optimisation of the Company's marketing strategy will be supported through the testing of varying marketing content and formats to identify key target demographics as well as the Company's ability to leverage its data analytic capabilities to generate repeat customer orders. Furthermore, management expects that the roll out of new channels and new partnerships will yield additional top line benefits.

Section 4. Financial Information

Gross Profit

Management estimates that gross profit will increase from \$27.5 million in CY19 to \$50.8 million in CY20F representing an increase in gross profit margin from 30.7% in CY19 to 32.1% in CY20F. This trend is driven by an increase in product margin of 39.5% in CY19 to 41.3% in CY20F due to strategic management initiatives undertaken during CY20F, including the negotiation of supplier pricing terms and rebates, moving away from generic discounting towards tailored promotional activities and an increased focus on brand-funded discounts.

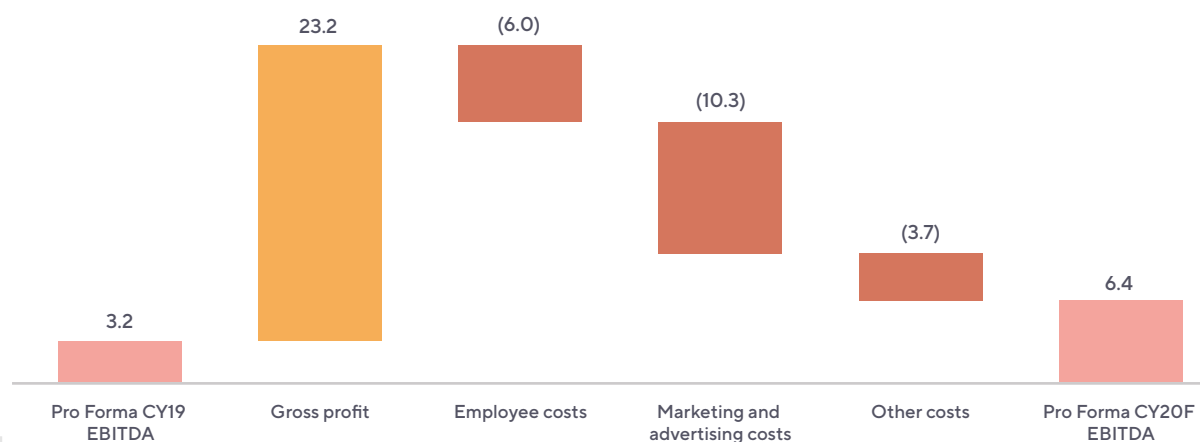
Employee costs

Employee costs are forecast to increase from \$8.4 million in CY19 to \$14.4 million in CY20F (up 71.7%). However, as a percentage of sales, this increase in cost represents a reduction from 9.4% of sales in CY19 to 9.1% of sales in CY20F. Although the Company continues to make key divisional hires including the hire of a new CEO and CFO, grow its employee base in the warehouse and customer service functions to meet forecast increase in demand, management anticipates that the uplift to sales will outpace the investment spend in staff.

Marketing and advertising costs

Marketing and advertising expense is forecast to increase from \$9.3 million in CY19 to \$19.6 million in CY20F, representing an increase from 10.4% of sales in CY19 to 12.4% of sales in CY20F. This increase will drive investment in digital advertising campaigns to attract and retain customers, together with an increased ATL spend to better leverage TAM and support the Company's continued focus on new customer acquisitions and retention of its returning customer base. A significant component of the CY20F marketing and advertising spend relates to the TV commercial which launched in May 2020 with total investment of \$2.8 million (over CY20F). As such, management anticipates CAC (including ATL) to increase from \$34.4 to \$39.0.

EBITDA, EBIT and NPAT (\$m)



On a pro forma basis EBITDA is forecast to increase from \$3.2 million in CY19 to \$6.4 million in CY20F representing an increase in EBITDA margin from 3.6% in CY19 to 4.0% in CY20F. Improvement in EBITDA margin reflects management's expectation that an expansion in operating leverage will be achieved through growth in the top line accompanied by disciplined management and optimisation of the Company's operating expenses particularly as they relate to employee costs and marketing and advertising spend.

On a pro forma basis management forecasts NPAT to increase from \$1.4 million in CY19 to \$3.5 million in CY20F primarily as a result of the factors discussed above. With the increase in income tax due to an increase in profit.

Change in net working capital

Management anticipates net working capital to increase by \$0.1 million due an increase in inventory being offset by the Company's trade and other payables.

Capital Expenditure

Capital expenditure is forecast to increase by \$1.2 million from \$1.0 million in CY19 to \$2.2 million in CY20F as Adore Beauty migrates onto the BigCommerce platform, continues to invest in the BeautyWise platform and develops and launches the Adore Beauty mobile application.

4.8.4. Pro Forma Forecast Results and Cash Flows: 1H FY21F compared to 1H FY20

Table 15: Pro Forma Forecast Results and Cash Flows: 1H FY21F compared to 1H FY20

A\$ millions	1H FY20	1H FY21F	Change	% Change
Revenue	52.0	89.0	37.0	71.2%
Cost of Sales	(35.8)	(60.6)	(24.8)	69.2%
Gross Profit	16.2	28.4	12.2	75.8%
Employee costs	(4.9)	(8.2)	(3.3)	68.5%
Marketing and advertising costs	(5.7)	(11.4)	(5.7)	99.4%
Other costs	(3.7)	(5.5)	(1.8)	47.9%
EBITDA	1.8	3.3	1.4	78.0%
Depreciation and amortisation	(0.6)	(0.7)	(0.1)	21.7%
EBIT	1.3	2.6	1.3	102.2%
Interest	(0.1)	(0.0)	0.0	(17.6%)
Profit/(loss) before tax	1.2	2.5	1.3	108.1%
Income tax expense	(0.4)	(0.8)	(0.4)	106.5%
Profit/(loss) after tax (NPAT)	0.9	1.8	0.9	108.8%
Revenue growth on PCP	46.6%	71.2%		
Gross margin	31.1%	31.9%		
Employee costs % of sales	9.4%	9.3%		
Marketing and advertising costs % of sales	11.0%	12.8%		
EBITDA margin	3.5%	3.7%		
EBITDA	1.8	3.3		
Non-cash movement in share based payments / loan shares	-	0.2		
Less: Change in net working capital	(2.4)	(2.7)		
Operating cash flow	(0.6)	0.7		
Less: Capital expenditure	(0.6)	(1.2)		
Cash flow before leases, financing and taxation	(1.1)	(0.5)		

Revenue

Revenue is forecast to increase by \$37.0 million from \$52.0 million in 1H FY20 to \$89.0m in 1H FY21F (an increase of 71.2%). The growth is attributable to an expected increase in Active Customers from both higher number of new customers and increased customer retention rates. Against the backdrop of strong customer acquisitions in 2H FY20, management anticipates that in 1H FY21F, the Company will continue to leverage its large customer base amassed in FY20 and mature their AOV and AOF. While growth in new customers during the period is anticipated, management has assumed that customer acquisition trends will be lower from those observed during the height of the COVID-19 impact. Management continues to view the 1H FY21F as an opportunity for the Company to continue to target a broader customer base through its various marketing and advertising initiatives, including television ad campaigns and targeted promotions.

Section 4. Financial Information

Gross Profit

Gross profit is forecast to increase from \$16.2 million in 1H FY20 to \$28.4 million in 1H FY21F. Gross profit margin is forecast to increase from 31.1% in 1H FY20 to 31.9% in 1H FY21 as the business continues to benefit from initiatives that commenced in H2 FY20. Although management anticipates freight costs to increase from 8.0% of sales to 8.2% of sales given the price rise on express orders from Australia Post, this will be more than offset by improvement in product margins from 40.0% of sales in 1H FY20 to 41.1% in 1H FY21F gained from strategic management initiatives to drive improvements in gross margin.

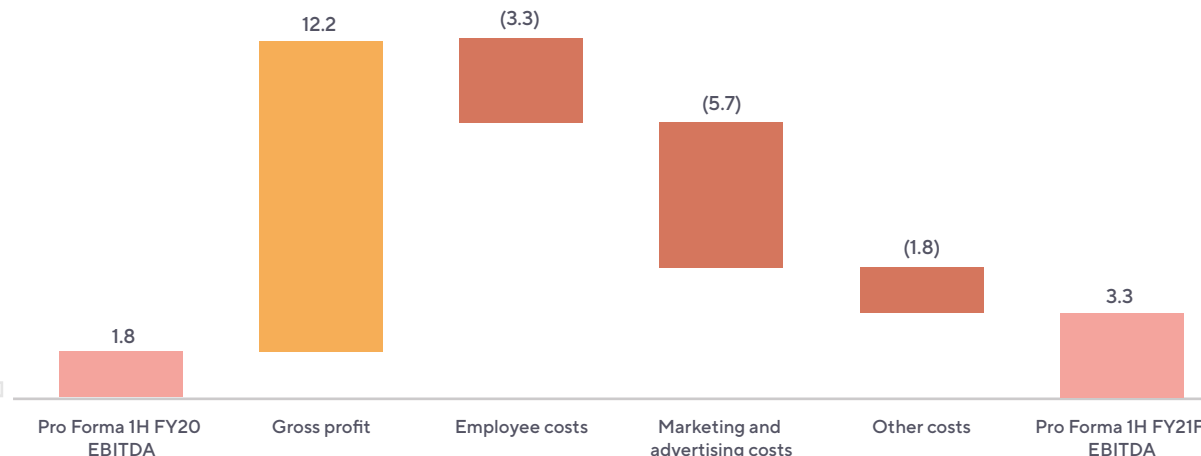
Employee costs

Employee costs increase from \$4.9 million in 1H FY20 to \$8.2 million in 1H FY21F and employee costs as a percentage of sales decreased from 9.4% to 9.3%. An increase in the quantum of employee costs reflects continued investment the Company expects to make in key divisions to facilitate growth. The Company anticipates 21 new hires over 1H FY21F including CEO, brand development manager and additional marketing staff. Furthermore, management anticipates the variable employee cost base will increase due to the Company paying increased penalty rates associated with its warehouse staff during the COVID-19 impacted trading period in 1H FY21F.

Marketing and advertising

Marketing and advertising spend is forecast to increase from \$5.7 million in 1H FY20 to \$11.4 million in 1H FY21F, representing 11.0% and 12.8% of sales respectively. Additional spend reflects management's commitment to investing in digital and ATL advertising to drive new customer acquisitions and drive brand awareness as well as improve customer retention rates. Management forecasts an increase in CAC (including ATL) from \$36.0 in 1H FY20 to \$43.3 in 1H FY21 given the accelerated acquisition of customers during the COVID-19 impacted trading period. Management continues to be focused on harnessing and consolidating new customers acquired given management believes any newly acquired cohorts will deliver similar accretive benefits and deliver LTV growth.

EBITDA, EBIT and NPAT (\$m)



The Company forecasts pro forma EBITDA to increase from \$1.8 million in 1H FY20 to \$3.3 million in 1H FY21F (an increase of 78.0%). This represents an improvement in EBITDA margin from 3.5% to 3.7%. The improvement in margin is underpinned by improvements anticipated in gross profit, offset to an extent by operating expense increases.

On a pro forma basis NPAT increased from \$0.9 million in 1H FY20 to \$1.8 million in 1H FY21F. This was primarily due to the factors discussed in the commentary above. Depreciation increased by \$0.1 million due to website and income tax increased by \$0.4 million.

Change in net working capital

Working capital is forecast to decrease by \$2.7 million in 1H FY21F largely due to the Company's increase in inventory being partially offset by its trade and other payables. This compares to a decrease of in working capital of \$2.4 million in 1H FY20 which was due to a smaller increase in inventory being partially offset by trade and other payables.

Capital Expenditure

Capital expenditure is forecast to increase from \$0.6 million in 1H FY20 to \$1.2 million in 1H FY21F. Forecast capital expenditure is primarily expected to relate to website capital expenditure, equipment and software capital expenditure with a small proportion attributable to warehouse management capital expenditure.

4.9. Trading update

In respect of 1H FY21F and CY20F, the Forecast Financial Information incorporates the audited results for the period ending 30 June 2020 and the forecast results over the period from 1 July 2020 to 31 December 2020 based on the assumptions set out in Sections 4.8.1 and 4.8.2.

Since the finalisation of the Forecast Financial Information, Adore Beauty has continued to deliver strong sales growth through July and August period, consistent with forecast expectations.

Table 16 sets out the actual performance of Adore Beauty Revenue, AOV, AOF, number of customers and number of new customers over the month of July and August 2020, compared to the growth rate assumption incorporated into the Forecast Financial Information in respect of 1H FY21F.

Due to the announcement of the extended COVID-19 lockdown in Victoria, it is anticipated that Adore Beauty will deliver stronger sales growth through the month of September than the forecast, driven in particular by new customer acquisition rates. We anticipate that the October new customer acquisition rates will moderate back toward the levels assumed in the forecast in October due to the anticipation of the re-opening of physical retail trade in Victoria and changes to the Federal Government's JobKeeper payments. Having regard to the expected uplift in revenue described above, there is also anticipated to be a positive impact on EBITDA for 1H FY21F.

As a result of the incremental new customers acquired during the period of July to September (above Company forecasts), it is expected there will be some revenue uplift on the forecast between October and December as these new customers continue to contribute revenue as returning customers in line with typical year one cohort behaviour.

We expect the anticipated increase in revenue to remain materially in line with the Forecast Financial Information.

Table 16: Actual performance vs forecasts for July and August 2020

A\$millions	Notes	July			August		
		Actual	Forecast	% Delta	Actual	Forecast	% Delta
Revenue	1	16.2	15.7	3.2%	18.7	17.9	4.5%
AOV	2	97.8	97.4	0.5%	99.2	99.1	0.1%
AOF		1.14	1.12	1.5%	1.15	1.12	2.6%
# customers		145,169	144,410	0.5%	164,920	161,744	2.0%
# new customers		53,287	53,235	0.1%	62,574	57,856	8.2%

Notes:

1. Revenue is inclusive of refunds and chargebacks.
2. AOV excludes impact of accounting adjustments and excludes GST.

Section 4. Financial Information

4.10. Sensitivity analysis of the Financial Information

The Forecast Financial Information is based on a number of key estimates and assumptions that are subject to a number of risks and uncertainties, many of which are beyond the control of Adore Beauty, its Directors and management. These estimates are also based on assumptions with respect to future business opportunities, which are subject to change.

Investors should be aware that the future is uncertain and variations, both positive and negative, are to be expected from the figures forecast in this Prospectus. Set out below is a summary of the sensitivity of the impact on the Forecast Financial Information of changes to a number of key variables. The changes in key variables as set out in the sensitivity analysis are intended to provide a guide only and are not intended to be indicative of the complete range of variations that may be experienced. Variations in actual performance could exceed the ranges shown. Care should be taken in interpreting these sensitivities. In order to illustrate the likely impact on the Forecast Financial Information, the estimated impact of changes in each of the assumptions has been calculated in isolation from changes in the other assumptions. In practice, changes in assumptions may offset each other or be additive and it is likely management would respond to any adverse changes in one item to seek to reduce the net effect on Adore Beauty's EBITDA and cash flow.

Table 17: Sensitivity analysis on forecast Revenue and EBITDA for 1H FY21F

A\$ millions	Variance	Revenue (\$m)		Revenue % change		EBITDA (\$m)		EBITDA % change	
		+	–	+	–	+	–	+	–
Average order value	+/-5%	4.5	(4.5)	5.0%	(5.0%)	0.7	(0.7)	20.7%	(20.7%)
Average order frequency	+/-5%	4.5	(4.5)	5.0%	(5.0%)	0.7	(0.7)	20.7%	(20.7%)
New customers	+/-5%	1.6	(1.6)	1.8%	(1.8%)	0.3	(0.3)	7.3%	(7.3%)
Existing customers return rate	+/-5%	3.2	(3.2)	3.6%	(3.6%)	0.5	(0.5)	15.1%	(15.1%)
Product margin	+/- 1ppt	–	–	–%	–%	0.9	(0.9)	25.1%	(25.1%)
Advertising and marketing costs	+/-5%	–	–	–%	–%	(0.6)	0.6	(16.0%)	16.0%

4.11. Dividend policy

The payment of a dividend by the Company is at the discretion of the Board and will be a function of a number of factors (many of which may be outside the control of the Company and its Directors and management, and are not reliably predictable), including the general business environment, operating results, cash flows and financial condition of Adore Beauty, future funding requirements, capital management initiatives, taxation considerations, any contractual, legal or regulatory restrictions on the payment of dividends by the Company, and any other factors the Directors may consider relevant.

While it is the aim of the Company that, in the longer term, its financial performance and position will enable the payment of dividends, at the Prospectus Date, the Company, does not intend, nor expect, to declare nor pay any dividends in the immediately foreseeable future.

4.12. Directors' statement

Each Director confirms that they have made enquiries and nothing has come to their attention to suggest that the Company is not continuing to earn profit from continuing operations up to the date of this Prospectus.

Section 5.

Key Risks

For personal use only



Section 5. Key Risks

This Section 5 describes some of the potential risks associated with an investment in Adore Beauty.

An investment in Adore Beauty is subject to risks both specific to us and our business activities, as well as general risks. Each of these risks could, either individually or in combination, if they eventuate, have a material adverse impact on our business, financial position, operating and financial performance and the value of the Shares. Some of the circumstances giving rise to these risks are partially or completely beyond our control and that of our Directors and senior management. There can be no guarantee that we will achieve our stated objectives or that any forward-looking statements or forecasts will eventuate. You should note that past performance may not be a reliable indicator of future performance.

You should note that the risks described in this Section 5 are not the only risks faced by us. Additional risks (including risks of which we and our Directors are currently unaware) also have the potential to have a material adverse effect on our business, financial position, operating and financial performance and the value of our Shares. The selection of risks has been based on an assessment of the combination of the probability of the risk occurring, the ability to mitigate the risk and the impact of the risk if it did occur. The assessment is based on the knowledge of the Directors and our senior management as at the date of the Prospectus, but there is no guarantee or assurance that the importance of risks will not change or other risks will not emerge.

Before deciding whether to invest in Adore Beauty, you should read this Prospectus carefully and in its entirety, and satisfy yourself that you have a sufficient understanding of the actual and potential risks associated with such an investment. You should consider whether an investment in Adore Beauty is suitable for you, having regard to your personal circumstances, investment objectives, financial circumstances, taxation position and particular needs. If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in Adore Beauty, you should seek professional advice from your stockbroker, accountant, lawyer, financial adviser or other independent professional adviser.

5.1. Risks specific to an investment in Adore Beauty

5.1.1. Performance and reliability of Adore Beauty's website, databases, its operating systems and internet and risk of data security breaches

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. There is a risk that if one or more of Adore Beauty's critical operating systems do not function properly, there could be system disruptions, corruption of databases or other electronic information, delays in marketing events to drive sales, delays in transaction processing, delays in receiving or processing orders through the warehouse, website slowdown or unavailability, loss of data or the inability to accept and fulfil customer orders. Such disruption, if sustained or regular, could materially adversely affect Adore Beauty's financial and operational performance.

Our financial and operational performance could be adversely affected by a system failure that causes prolonged disruption to our website, or to third party suppliers of our products. This could damage the reputation and brand of the platform and reduce visitors to the website leading to a decrease in sales.

Our websites, databases and systems are all hosted on platforms provided by third party providers.

We are subject to the disaster planning contingencies of those third party providers to deal with events that are beyond the control of those parties such as earthquakes, floods, fires, power grid issues, telecommunication and network failures, terrorist attacks, computer viruses and other similar events. A failure in the systems of a third party provider is likely to have a material impact on our systems and operations. While we mitigate such risk through insurance, this may not be sufficient to avoid customer disenchantment or reputational damage, which in turn may adversely affect our financial performance.

Customer and third party supplier databases and data analytics are critical to our continued success. There is a risk that computer viruses, electronic theft, physical terminal theft, employee language programming errors, operating system failures, third party provider failures and similar disruptions could result in a loss of data. We would incur a financial cost to remedy the loss of data which may adversely affect our financial and/or operating performance and/or lead to reputational damage.

Adore Beauty collects, processes and stores, through the ordinary course of its business, a wide range of customer data. Despite Adore Beauty's best efforts to ensure the safe collection, storage and protection of customer data (including firewalls, security information and event management (SIEM) setup within AWS and a security manager as a service), there is a risk that a data breach may occur, or a third party may gain access to the confidential information of our customers or our internal systems. This could result in a breach of law by Adore Beauty, or a breach of client agreements, and may attract significant media attention and damage our reputation and brand. Any breach of this nature may have a material adverse effect on our financial and/or operational performance in the future.

5.1.2. Continued growth of retail e-commerce and growth in demand for beauty and personal care products may be affected by general economic factors

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 or as currently forecast. We are subject to factors outside our 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. Some of these factors have experienced (and may continue to experience) a period of extreme volatility in light of the COVID-19 pandemic and the State and Federal Governments' responses to the pandemic. 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. As a result, we may not be able to meet our business objectives which would adversely affect our financial and/or operational performance.

5.1.3. 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 a number of 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 our network. This may increase the cost of customer acquisition and lower margins due to pricing pressure. Our 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.

We may need to quickly and effectively adapt pricing and margins in response to changes in the competitive landscape or increase competitive pressure. This may have an adverse effect on our financial and/or operational performance.

5.1.4. We rely on third-party suppliers for our products

The success of Adore Beauty's business and its ability to grow relies on its ability to retain its existing key supplier relationships and its ability to continue to attract suppliers on acceptable terms. Our 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 our 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 our financial and/or operational performance in the future.

Third party suppliers may also have a "stock out" with insufficient quantities of products available in a timely manner, or encounter financial or material difficulties, labour shortages or unilaterally amend their terms of agreement with our competitors. Our suppliers may incur unforeseen cost, or seek changes in credit terms as a result. These factors may adversely affect our customers or customer orders, which in turn may have a material adverse effect on our financial and/or operational performance.

5.1.5. Exclusivity of brands

Competitors will from time to time attempt to negotiate contracts with exclusivity terms with various brands (potentially including with brands that are stocked by Adore Beauty or that Adore Beauty wishes to stock). There is a risk that the brands Adore Beauty stocks, or would like to stock, could be subject to these exclusivity arrangements with a competitor in the future. If Adore Beauty is to lose core contributing exclusive and/or restraint brands then this may have a material effect on operating performance.

Section 5. Key Risks

5.1.6. Our recent growth rates may not be sustainable or indicative of our future growth

The success of the business depends on our ability to acquire customers in a cost-effective manner. However, there is a risk that we may need to spend more than we anticipate to acquire and retain customers or may generate less revenue per customer than anticipated, either of which could have a negative impact on the business and the results of operations. In addition, our historical growth rates may not be sustainable or indicative of future growth.

We believe that our continued revenue growth will depend upon, among other factors, our ability to:

- increase brand and product offering;
- continue to acquire more customers;
- launch, develop and continue to enhance features on the mobile app;
- develop new features to enhance the consumer experience on our website;
- increase the frequency with which new and repeat customers purchase products on our sites through merchandising, data analytics, technology and a service proposition that appeals to our customers;
- add new suppliers and deepen our relationships with existing suppliers;
- enhance the systems consumers use to interact with our site and invest in our infrastructure platform;
- increase customer engagement through original content, fostering a sense of community; and
- attract and retain the right talent to manage the above factors.

Achievement of any of the foregoing cannot be assured. Failure to continue revenue growth rates could have a material adverse effect on our financial and/or operating performance. Investors should not rely on the historical rate of revenue growth as an indication of future performance.

5.1.7. The growth in Online Penetration and rate of migration to online platforms

Growth in e-commerce is being driven partly by the migration of customers from a traditional offline retailing experience to online retailing platforms across a number of segments. This factor is outside our control and there is no guarantee that the migration of customers will continue to grow in the future despite the historical and forecast growth patterns in Australia and New Zealand. If the rate of penetration and migration to e-commerce does not increase in line with our assumptions, Adore Beauty may not be able to attract new and repeat customers at currently-anticipated rates, and this may have a material adverse effect on our financial and operational performance in the future.

5.1.8. Changes in customer preferences

We derive our revenue from the beauty and personal care market which is subject to on-trend, and style specific customer preferences. Customer spending in this segment is primarily discretionary in nature, as is generally the case with the retail e-commerce market, and customers may allocate this discretionary spend across different product categories or other services from time to time. Our failure to accurately predict or respond to customer preferences could result in lower sales or margins or reputational damage to the Adore Beauty brand, and could have a material adverse effect on our financial and/or operational performance.

5.1.9. Changes in technology and technology updates

The retail e-commerce market is influenced by changing technologies and adapting industry standards for the future.

We may be impacted by our ability to maintain and update our technology platforms to address such changes. Maintaining and updating our technology could involve a significant cost and no assurance can be given that we will have the capital required to develop or acquire new technologies in the future required to meet any future changes. The Company's inability to do so may have a material adverse impact on its business and financial and/or operating performance.

5.1.10. Adore Beauty's brand and platform attractiveness to customers could be impacted by negative publicity and/or unfavourable customer complaints

Maintaining and enhancing our brand and product offering is critical to expanding Adore Beauty's customer base and suppliers. However, Adore Beauty relies on a significant number of third parties to provide its products and services and Adore Beauty's brand experience and platform attractiveness is impacted by the quality of products from suppliers and services levels or logistics providers. If these third parties do not meet our customer's expectations, our platform may suffer damage and potentially lower customer satisfaction.

Customer complaints or negative publicity about our website, products, product delivery times, customer data handling and security practices or customer support, especially on blogs, social media and our own website, could materially impact consumer use of the website and consumer and supplier confidence in Adore Beauty. This may have an adverse effect on Adore Beauty's brand and platform attractiveness.

5.1.11. COVID-19

Events related to the Coronavirus pandemic (COVID-19) have resulted in significant market volatility. There is continued uncertainty as to ongoing and future response of governments and authorities globally as well as a likelihood of an Australian economic downturn of unknown duration or severity. As such, the full impact of COVID-19 to consumer behaviour, suppliers, employees and the Company are not fully known. Given this, the impact of COVID-19 could potentially be materially adverse to the Company's financial and/or operational performance. Further, any government or industry measures may adversely affect our operations and are likely beyond our control. In compliance with its continuous disclosure obligations, we will continue to update the market in regard to any material impact of COVID-19 on our business.

5.1.12. COVID-19 State and Federal Government restrictions

Due to COVID-19, the State and Federal Governments have imposed social-distancing restrictions which have, and may continue to, disrupt the operations of our business. There is a risk that social-distancing restrictions persist, potentially resulting in an increasing reliance on technology to communicate with employees which may impact on our ability to attract and motivate employees, in particular new team members.

Further, Government restrictions may disrupt, and may continue to disrupt, Adore Beauty's warehouse operations. Government restrictions on warehouse operations may impact Adore Beauty's ability to fulfil orders in a timely manner or at all. This may directly impact Adore Beauty's customer service (including order delivery timeframes), sales levels and may indirectly impact other initiatives designed to support Adore Beauty's growth (for example, the need to redeploy marketing and promotional resources to customer order fulfilment may delay the Company's marketing and promotional initiatives). Such restrictions may, directly and indirectly, have a material adverse impact on the financial and/or operational performance of Adore Beauty.

5.1.13. COVID-19 supply chain impact

There remains a risk that the spread of COVID-19 has an adverse impact on our supply chain. This could occur if the ability to transport products between countries is disrupted, our key suppliers are negatively affected or we are otherwise unable to efficiently distribute products to customers. In the event that our supply chain is disrupted, this may have a material adverse effect on our financial and/or operating performance.

5.1.14. We rely on services provided by third party banking, telecommunications, insurance, payment and logistics providers

We rely on the services provided by third party banking, telecommunications, insurance, payment and logistics providers and have limited influence over these third parties. Any system or service failure that interrupts our ability to make or receive payments could adversely affect our business. A system or service failure that affects the delivery of ordered products to customers (including any failure arising as a result of State or Federal Government-mandated restrictions that may be imposed from time to time in response to COVID-19) could adversely affect the customer experience and reduce the attractiveness of our website to customers, limiting future sales. Any of these system or service failures could have an adverse impact on the reputation and brand of the business which could materially adversely affect our business, financial performance and/or operations.

Section 5. Key Risks

In addition, if Adore Beauty inadvertently breaches the agreements that it has in place with such banking, telecommunications, insurance, payment and logistics providers, Adore Beauty may be required to pay higher fees to those providers and/or the providers may have a right to terminate their relationship with Adore Beauty. If a provider terminates their relationship, Adore Beauty will need to source and negotiate terms with an alternative provider. There is no guarantee that Adore Beauty will be able to source an alternative provider on terms and conditions that are as favourable to Adore Beauty as the existing terms and conditions, if at all. These changes may materially adversely affect Adore Beauty's business and financial and/or operating performance.

5.1.15. Inventory management

If our inventory management system fails or provides inaccurate information, we may experience disproportionate demand and supply for specific products or "stock-out" issues. This may result in lost sales, increased holding costs, less than forecast margins, damage to our reputation or brand which may have a material adverse effect on our financial and/or operational performance.

5.1.16. Increase in the cost of or reliance upon paid marketing

Some of Adore Beauty's revenues are attributable to customers who accessed the Company's websites by clicking on links that Adore Beauty paid to list on search engine's results pages. From time to time, the Company places bids on key words at a certain cost per click, the cost of which are subsequently paid to the search engine in order to place these listings with a search engine. Under the bidding system, the order in which websites appear in a search engine's paid search results is determined by a combination of the price bid by the websites and the historical and expected rate at which consumers click through to the website. Bids on general search terms are typically higher cost, whereas bids on branded search terms (such as "Adore Beauty") are typically lower cost. The click-through rate is, in turn, influenced by the strength of the websites' brand and the popularity of the website. The cost of search engine marketing generally increases as the importance of online advertising increases and competition to be ranked higher in paid listings increases. Further, businesses might have to submit higher bids in order to purchase certain key words to offset a reduction in their click-through rate.

Adore Beauty's reliance on paid marketing may increase if it were to suffer negative publicity or if its market share were to decline, or if any other factor impacted on its brand or reputation. In addition, if the Company's websites were to experience a reduction in natural search visibility in search engines, it could increase Adore Beauty's reliance on search engine marketing. Adore Beauty's business, financial performance and/or operations may be materially adversely affected by any increase in the cost of, or in reliance on, search engine marketing, or any decrease in the effectiveness of its search engine marketing.

5.1.17. Employee recruitment and retention

Our future success is dependent on our ability to attract and/or retain individuals that will complement our culture and retain an experienced senior management team. Competition for key personnel within the retail e-commerce market could increase the demand and cost for quality employees. While Adore Beauty undertakes succession planning in the ordinary course of business, our business may be disrupted and our financial and/or operational performance could be materially adversely affected if we cannot attract and/or retain employees or senior management personnel to implement our growth strategy.

5.1.18. Our website may be excluded from or ranked lower in organic search results due to changes to search engines' algorithms or terms of services

Organic search results are not dependent on payments or marketing costs, but are the result of a search engine's "organic" listing. Customers sourced through organic listings generate higher gross margins for Adore Beauty as there are less marketing costs associated with transactions with these customers. Search engines will typically modify their algorithms to prevent manipulation of the rankings. Historically, search engines have not accepted payments to manipulate these rankings.

These algorithms may be confidential or proprietary information. If we are unable to adapt quickly to algorithm changes, our marketing effectiveness may be adversely affected and we could suffer financially from a significant decrease in customer traffic and subsequent conversion rates. There is a risk that Adore Beauty could violate a search engine's terms of service by trying to improve its ranking. As a result we could be excluded from a search engine's organic listing. Such exclusion could significantly affect our ability to achieve higher gross margins which could have a material adverse effect on our financial and/or operational performance in the future.

5.1.19. Unauthorised use of intellectual property or independent development of technology

Our online platforms, distribution software, applications, data analytics and customer bases contain a significant amount of proprietary information (including, in particular, Adore Beauty's proprietary AI-driven beauty recommendation engine, BeautyWise). Unauthorised parties may obtain or copy some or all of this intellectual property or independently develop technology that is similar and may be in breach of proprietary rights or patent substantially similar or substitute technology as those used by Adore Beauty. There is a risk that the validity, ownership or unauthorised use of intellectual property relevant to Adore Beauty's business may be successfully challenged by third parties. There is also a risk that Adore Beauty may inadvertently fail to protect its intellectual property sufficiently or infringe the intellectual property rights of third parties. Any such breaches could result in an inability to use the intellectual property in question and erode Adore Beauty's competitive position. Adore Beauty may also take legal action to remedy a breach of proprietary information which may involve significant expense and have a material adverse effect on our financial and/or operational performance in the future.

5.1.20. Risk of litigation, claims, disputes and regulatory investigations

We may be subject to litigation, claims, disputes and regulatory investigations in the course of our business both in Australia and overseas including employment disputes, contractual disputes, indemnity claims, occupational health and safety claims, actions brought by other third parties, or criminal or civil proceedings. Adore Beauty could face civil penalty proceedings, other legal or regulatory sanctions or reputational damage as a result of any failure to comply with applicable laws, regulations, or codes of conduct. This may have a material adverse effect on our financial and/or operational performance.

5.1.21. A workplace accident or incident may occur

Adore Beauty's employees are at risk of workplace accidents and incidents. Should an employee be injured in the course of their employment, Adore Beauty may be liable for penalties or damages as a result. If Adore Beauty was required to pay monetary penalties, this may adversely affect its financial position as well as the reputation of Adore Beauty.

5.1.22. Domain name

Adore Beauty is the registrant of the internet domain name for the website www.adorebeauty.com.au. Domain name registrants may change the requirements for continued registration or renewal. If we fail to re-register this name when required to do so, or lose control of any domain name, we would lose all website traffic directed to that domain. This could lead to a significant reduction in our revenue, even if we were ultimately able to re-direct users to other domain names.

5.1.23. Potential regulation of the Buy Now Pay Later (BNPL) sector

Payment for a proportion of Adore Beauty's total revenues is facilitated by BNPL platform AfterPay. An assumption of the continued unfettered operation of BNPL platforms to assist Adore Beauty's customers to fund their purchases is imbedded within the business' forecasts. However, the BNPL sector may be subject to increased regulation that could affect the platform's growth, functionality and customer utilisation. Adore Beauty's financial, operational performance and/or growth objectives may be adversely impacted if BNPL services were restricted in use by Adore Beauty's customers, or if the costs or ease of use were adversely altered.

5.1.24. Financial information and basis of forecasts

The forward-looking statements, opinions and estimates provided in this Prospectus (including any forecast financial information provided) rely on various contingencies and assumptions, some of which are described in Section 4.8. Various factors and risks, both known and unknown, many of which are outside the control of Adore Beauty, may impact upon the Company's performance and cause actual performance to vary significantly from expected results. While the forecasts have been prepared with due care and attention, and the Company considers the assumptions to be reasonable, future events and conditions cannot be reliably predicted and the assumptions are subject to significant uncertainties. Actual results are likely to vary from the forecast and any variation may be materially positive or negative. There is no guarantee that Adore Beauty will achieve its stated objectives or that any forward-looking statements or forecasts outlined in the Prospectus will eventuate.

Section 5. Key Risks

5.1.25. Foreign currency exposure

Some products sourced by Adore Beauty are purchased directly in foreign currency and, accordingly, Adore Beauty is exposed to the foreign exchange rate movements, in particular movements in the AUD/USD exchange rate. Adore Beauty passes on to its customers the movement in the cost of goods attributed to foreign exchange. There is a risk that where there is a decrease in the exchange rate of the AUD relative to the USD, consumer demand for Adore Beauty's products may decrease. This could have a material adverse effect on Adore Beauty's business, financial condition, operating and/or financial performance.

5.1.26. Insurance

Adore Beauty maintains insurance coverage in relation to many different aspects of its business. However, no assurance can be given that such insurance will be available in the future on a commercially reasonable basis or that Adore Beauty will have adequate insurance cover against claims made. If Adore Beauty incurs uninsured losses or liabilities, its assets, profits and prospects may be materially adversely affected. In particular, there is a risk that Adore Beauty may be subject to claims in respect of both historical and future incidents. If such claims arise, there is a risk that Adore Beauty's insurance cover may not adequately protect Adore Beauty against those claims, which may have a material adverse effect on Adore Beauty. Further, Adore Beauty may not be able to recover under its insurance if the company or companies providing the insurance (or any reinsurance) are under financial distress or fail. Additionally, various factors may influence insurance premiums, which may have a detrimental impact on Adore Beauty's profitability. Finally, if Adore Beauty does not maintain an appropriate level of insurance coverage, it may be exposed to a wide range of liabilities.

5.1.27. Inadvertent sale of infringing third-party branded products

We can offer no assurances that third-party branded products will not attempt to infringe rights associated with other products sold by other third parties. There is a risk that third-party branded products offered and supplied for sale through our online platform may infringe the intellectual property rights of third parties or other products. The inadvertent sale of such products could result in damage to our reputation or brands and may have a material adverse effect on our financial and/or operational performance.

5.1.28. Our possible expansion into new markets may not be successful

Any future acquisitions or expansions into new markets (in product segments, relevant adjacencies and potentially geographically) may expose us to unforeseen risks. A number of these risks could include regulatory requirements, complications or inefficiencies related to staff, managerial and operational performance, enforcing contractual obligations and intellectual property rights, differing consumer sentiments and preferences, competition from existing established competitors, exchange rate fluctuations, political or economic instabilities, and taxation. Adore Beauty is experienced in dealing with such issues in Australian and New Zealand markets, but has little experience outside those jurisdictions.

We will make informed decisions on the attractiveness and effectiveness of any future acquisitions or expansions into new markets, based on information available to us at that time. If such information turns out to be inaccurate, or circumstances arise outside of our control while entering these new markets, there may be a material adverse effect on the financial and/or operational performance of the Company.

5.1.29. Our future growth may place significant demands on our warehouse, infrastructure and online platforms

As we are in a growth phase of our development, we will need to continue to upgrade and enhance our warehouse, infrastructure and online platforms to ensure we have sufficient capacity for our forecast growth in customer base and product offering. If we are unable to manage our warehouse, infrastructure and online platforms in line with the forecast growth and demand, this may have a material adverse effect on our financial and/or operational performance in the future.

5.1.30. Integration of future acquisitions may not be successful

We may consider future acquisitions where the Company believes that those acquisitions are complementary to our future growth strategy. There are a number of difficulties associated with acquisitions such as the integration of financial, operational and managerial resources. If these companies are not successfully integrated this may have a material adverse effect on our financial and operational performance.

In addition, while we will conduct due diligence on any proposed acquisitions, there is no assurance that an acquisition will perform as forecast once fully integrated, or successfully achieve the desired objectives and synergies.

5.2. General risks of an investment in Adore Beauty

5.2.1. Price of shares and general investment risks

The price at which Shares are quoted on the ASX may increase or decrease due to a number of factors. The events relating to COVID-19 have recently resulted in decline in general economic conditions together with significant volatility to the market including the prices of shares trading on the ASX. These factors may cause the Shares to trade at prices above or below the price at which the Shares are being offered under this Prospectus. There is no assurance that the price of the Shares will increase following the quotation of the Company on the ASX, even if our operations and financial performance improves. Some of the factors which may affect the price of the Shares include:

- fluctuations in the domestic and international market for listed stocks;
- general economic conditions, including interest rates, inflation rates, exchange rates, commodity and oil prices, changes to government fiscal, monetary or regulatory policies, legislation or regulation;
- inclusion in or removal from market indices;
- changes to government fiscal, monetary or regulatory policy, legislation or regulation;
- acquisition and dilution;
- pandemic risk;
- the nature of the markets in which we operate; and
- general operational and business risks.

Other factors which may negatively affect investor sentiment and influence us, specifically or the stock market more generally include acts of terrorism, an outbreak of international hostilities or tensions, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events. We have a limited ability to insure against some of the risks mentioned above.

5.2.2. Trading in Shares may not be liquid

Once the Shares are quoted on the ASX, there can be no guarantee that an active trading market for the Shares will develop or that the price of the Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for their Shares that is less than the price that Shareholders paid.

5.2.3. Existing Shareholders retain a significant stake in the Company post-Listing

Following Completion, the Existing Shareholders will hold 57.6% of the issued capital of Adore Beauty.

54,199,164 million Shares, representing 57.6% of the issued capital of Adore Beauty, will be subject to escrow restrictions ranging up until the release of the Company's financial results for FY21. There will be no restrictions on the sale of any escrowed Shares on and from the date on which those escrow restrictions are released in accordance with the terms of the relevant restriction, or sooner, in the event an exception to the restriction is available.

Following the end of the escrow period, a significant sale of Shares by some or all of the Escrowed Shareholders, or the perception that such sales have occurred or might occur, may adversely affect the price of Shares.

Alternatively, the absence of any sale of Shares by the Existing Shareholders may cause or contribute to a diminution in the liquidity of the market for the Shares.

5.2.4. Changes to laws and regulations

Adore Beauty is subject to, and must comply with, a variety of laws and regulations in Australia and New Zealand in the ordinary course of its business. These laws and regulations include those that relate to fair trading and consumer protection, product safety, employment, taxation (including GST and stamp duty in Australia) and customs and tariffs.

Changes to laws and regulations in these areas may adversely affect Adore Beauty, including by increasing Adore Beauty's costs either directly (such as an increase in the amount of tax the Company is required to pay), or indirectly (including by increasing the cost to the business of complying with legal requirements). Any such adverse effect may impact Adore Beauty's future operating and/or financial performance.

Section 5. Key Risks

5.2.5. Accounting standards

Australian Accounting Standards are set by the AASB and are outside the control of Adore Beauty, its Directors, or its senior management team. The AASB is due to introduce new or refined Australian Accounting Standards in future periods, which may affect future measurement and recognition of key statement of income and balance sheet items, including sales and receivables.

There is also the risk that interpretations of existing Australian Accounting Standards, including those relating to the measurement and recognition of key statement of income and balance sheet items, including sales and receivables, may differ. Changes to Australian Accounting Standards issued by the AASB or changes to the commonly held views on the application of those standards could materially adversely affect the financial performance and position reported in Adore Beauty's consolidated financial statements.

5.2.6. Exposure to changes in tax rules or their interpretation

Tax rules or their interpretation in relation to equity investments, divestments and other transactions entered into in the ordinary course of our business may change. In particular, both the level and basis of taxation may change.

In addition, from time to time the Australian Taxation Office also reviews the tax treatment of transactions entered into by us. Any actual or alleged failure to comply with, or any change in the application or interpretation of tax rules applied by us in respect of such transactions, could increase its tax liabilities or expose it to legal, regulatory or other actions.

In addition, an investment in the Shares involves tax considerations which may differ for each Shareholder. Each investor considering an investment in Adore Beauty is encouraged to seek professional tax advice in connection with any investment in Adore Beauty. Refer to Section 9.11 for additional taxation considerations.

5.2.7. Future capital needs

We may be required in the future to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and a failure to raise capital when needed could harm our business. If we cannot raise funds on acceptable terms, it may not be able to grow its business or respond to competitive pressures.

5.2.8. Risk of Shareholder dilution

In the future, we may elect to issue Shares in connection with fundraisings, including raising proceeds for acquisitions we may decide to make. Shareholder interests may be diluted and Shareholders may experience a loss in value of their equity if Adore Beauty issues Shares as consideration for acquisitions, funds acquisitions through raising equity capital or if Adore Beauty engages in fundraisings for any other reason, including the repayment of debt. While we will be subject to the constraints of the ASX Listing Rules regarding the percentage of our capital it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

5.2.9. No guarantee of future dividend payments

There is no guarantee that the Group will generate sufficient cash flow from its operations in the future to pay dividends. The Group's dividend policy is set out in Section 4.11. Further, Adore Beauty expects future dividends to be franked to the maximum extent possible. However, there is no guarantee that Adore Beauty will have sufficient franking credits in the future to fully frank dividends or that the imputation system will not be varied or abolished.

In addition, if a portion of Adore Beauty's future earnings are derived from offshore operations, it may not be possible to fully frank dividends. The value and availability of franking credits to a Shareholder will differ depending on the Shareholder's particular tax circumstances. Shareholders should also be aware that the ability to use franking credits, either as a tax offset or to claim a refund after the end of the income year, will depend on the individual tax position of each Shareholder.

5.2.10. Force majeure events may occur

Events may occur within or outside the Australia and New Zealand markets that negatively impact our financial performance, our operations and/or the price of the Shares. These events include but are not limited to acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other natural or man-made events or occurrences that may have a material adverse effect on the Company's suppliers, the demand for our products and/or our ability to conduct business. We have only a limited ability to insure against some of these risks.

5.2.11. Epidemics and pandemics

In addition to force majeure events mentioned in Section 5.2.10 above, a rapid spread of infectious disease to a large number of people within a short period of time may occur within or outside the countries in which Adore Beauty operates. In particular, a pandemic similar in nature to the 2002-03 outbreak of Severe Acute Respiratory Syndrome (SARS), the 2009 swine flu outbreak or the 2019-20 COVID-19 (novel coronavirus pneumonia) outbreak may adversely affect general economic sentiment, the global economy, stock markets and other financial markets. COVID-19 is currently of significant concern to the worldwide community and has clouded the near and medium term outlook for the global economy. Financial markets have also been volatile as market participants and governments worldwide assess the risks associated with the coronavirus and global supply chains are being severely impacted across major industries. Measures introduced to limit transmission of the virus are likely to have a negative impact on the global economy and economic growth. As a result of the global outbreak monetary policy has been eased to provide additional support to employment and economic activity. Given the evolving situation, it is difficult to predict the nature and extent of the risk and the impact on Adore Beauty. The impact of the virus on consumer sentiment, demand and confidence generally could materially adversely affect Adore Beauty's operations and/or financial performance.

5.2.12. Expected future events may not occur

Certain statements in this Prospectus constitute forward-looking statements. Such forward-looking statements rely on various contingencies and assumptions and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance and achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

Given these uncertainties, prospective investors should not place undue reliance on forward-looking statements. In addition, under no circumstances should forward-looking statements be regarded as a representation or warranty by Adore Beauty or any other person referred to in this Prospectus that a particular outcome or future event is guaranteed.

5.2.13. Climate change

Climate change and the corresponding increase in the likelihood of events such as floods, droughts, fires, heatwaves and cyclones could impact Adore Beauty by causing increased costs, closures, disruption to operations, lack of access, damage to the warehouse or stock, impacts on supply and transportation of product, among other things. Such events may lead to an increase in operational costs or business interruption and may have a detrimental impact on Adore Beauty's financial and/or operational performance.

5.2.14. No guarantee in respect of investment

The above list of risk factors should not be taken as an exhaustive list of the risks faced by Adore Beauty or by investors in Adore Beauty. The above factors, and others not specifically referred to above, may materially affect the financial performance of Adore Beauty and the value of the Shares under the Offer. The Shares issued under the Offer carry no guarantee in respect of profitability, dividends, return of capital or the price at which they may trade on the ASX. Furthermore, there is no guarantee that the Shares will remain continuously quoted on the ASX, which could impact the ability of prospective Shareholders to sell their Shares.

Investors should consult their professional adviser before deciding whether to apply for Shares under the Offer.





Section 6.

Key People, Interests, Benefits




6.1. Board of Directors

The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

Name	Expertise, experience and qualifications
 <p>Justin Ryan <i>Chair</i></p>	<p>Justin was appointed to the board of Adore Beauty as Chair and Non-executive Director in September 2019.</p> <p>Justin is a Managing Partner of Quadrant Private Equity where he has been employed since February 2011. Justin leads the Quadrant Growth Fund. In that capacity Justin is also currently on a number of Boards, including as Chairman and Non-executive Director of Grays Online, Modibodi and Quad Lock. He was also Chairman and Non-executive Director up until ASX listing of Burson (now Bapcor) and APN Outdoor (now JCDecaux).</p> <p>Justin was formerly the Managing Director and CEO of Alesco Corporation and is currently a Non-executive Director of the National Institute of Dramatic Art.</p> <p>Justin holds a Bachelor of Economics and Bachelor of Law from the University of Sydney and a Master of Business Administration from The Wharton School, of the University of Pennsylvania. He is a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australia.</p>
 <p>Kate Morris <i>Executive Director</i></p>	<p>Kate is a co-founder of Adore Beauty, and was a Director and joint CEO with James Height since the Company's formation in 2000, until 2018 when she became an Executive Director.</p> <p>Kate is the public face of Adore Beauty and has been jointly responsible for driving strategy and business growth. 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.</p> <p>Kate holds a Bachelor of Business (Management) from Monash University.</p>
 <p>James Height <i>Executive Director</i></p>	<p>James is a co-founder of Adore Beauty and was joint CEO since the Company's inception until 2018, and then sole CEO between 2018 and August 2020.</p> <p>James brings a deep understanding of the Company's operational and marketing capabilities.</p> <p>James has been jointly responsible for the Group's strategy.</p> <p>James holds a Bachelor of Arts, Bachelor of Laws and a Master of Business Management from Monash University.</p>
 <p>Marina Go <i>Non-Executive Director</i></p>	<p>Marina was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and is Chair of the People and Remuneration Committee.</p> <p>With a background in media, Marina has worked in executive roles across a range of listed and private companies and in non-executive roles across a diverse range of sectors.</p> <p>Marina is the Chair of the Super Netball Commission, Ovarian Cancer Australia and The Walkley Foundation, and is currently a non-executive director on the boards of Energy Australia, 7-Eleven, Autosports Group and Pro-Pac.</p> <p>Marina holds a Bachelor of Arts from Macquarie University and a Master of Business Administration from the University of New South Wales. She is a member of O'Connell Street Associates, the Australian Institute of Company Directors and the University of New South Wales Business Advisory Council.</p>



Section 6. Key People, Interests, Benefits

Name	Expertise, experience and qualifications
 <p>Sandra Birkenleigh Non-Executive Director</p>	<p>Sandra was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and is Chair of the Audit and Risk Management Committee.</p> <p>Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience and retail and resources companies.</p> <p>Sandra serves on the boards of a number of ASX listed entities and chairs a number of audit/audit and risk committees.</p> <p>She is a member of the board of the National Disability Insurance Agency and a member of the Council of the University of the Sunshine Coast.</p> <p>Formally a partner of PwC for 16 years, Sandra holds a Bachelor of Commerce from UNSW and is a member of the Institute of Chartered Accountants of Australia and New Zealand. She is a Graduate member of the Australia Institute of Company Directors and is a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).</p>

The composition of the Board committees and a summary of its key corporate governance policies are set out in Sections 6.4.1.13 and 6.4.1.14.

Each Director above has confirmed to the Company that they anticipate being able to perform their duties as a non-executive director or executive director, as the case may be, without constraint having regard to their other commitments.

6.2. Key Management

Name	Expertise, experience and qualifications
 <p>Kate Morris Executive Director</p>	<p>Refer to Section 6.1 for details.</p>
 <p>James Height Executive Director</p>	<p>Refer to Section 6.1 for details.</p>

Name

**Tennealle
O'Shannessy**
*Chief Executive
Officer*

Expertise, experience and qualifications

Tennealle joined as CEO of Adore Beauty in August 2020, where she is responsible for the management of the business and its strategic development.

Tennealle brings to Adore Beauty over 20 years of professional experience, including nine years with SEEK, a leader in online employment marketplaces where she most recently held the role of Managing Director – Americas. In this position Tennealle led the emerging Americas portfolio, working closely with locally based CEOs to drive strategy and the evolution of SEEK's business model within each market.

Prior to this role Tennealle held a number of strategy focused positions at SEEK including the start-up and scale of Online Education Services, a public-private partnership between SEEK and Swinburne University which was awarded the 2015 BRW Fast 100 winner. She also held multiple non-executive director positions for SEEK-owned assets. Previously she was a consultant with global tier-one management consulting firm, A.T. Kearney focusing on strategic and operational CEO-agenda issues.

Tennealle is an Australian Institute of Company Directors graduate and holds a Master of Business Administration (Deans List Honours) from the Melbourne Business School as well as a Bachelor of Laws (Honours) and Bachelor of Business (Management) from Monash University.



Stephanie Carroll
*Chief Financial
Officer*

Stephanie Carroll joined Adore Beauty in 2019 as Chief Financial Officer and is responsible for the finance, risk and compliance functions.

Stephanie has over 20 years' experience in Finance with experience across a number of industries including fast moving consumer goods, retail banking and tertiary education. Prior to joining Adore Beauty, Stephanie was the Head of Finance at Coca-Cola Amatil (ASX: CCL).

Stephanie is a Certified Practising Accountant and holds a Bachelor of Economics (Honours) from the University of Sydney.



Gareth Williams
*Chief Technology
Officer*

Gareth Williams has worked with Adore Beauty since 2015 and became the Chief Technology Officer in October 2017. Gareth led Adore Beauty's transition to the HighJump warehouse management system and the headless commerce transformation. Gareth is currently leading Adore Beauty's mobile application development.

Prior to joining Adore Beauty, Gareth held roles at Tangent Snowball Australia for over four years, acting as a main point of contact for key clients including Borders Australia (now Bookworld).

Gareth holds a Bachelor of Science (Computer Science) from Keele University.



Sarah Mullen
*Chief Operations
Officer*



Sarah Mullen joined Adore Beauty in 2013 and became the Chief Operations Officer in June 2019. Sarah leads the brands merchandising, customer service, planning and warehouse departments of the business.

Prior to joining Adore Beauty, Sarah was in the Product Development team at Forever New Clothing, and held roles at the Just Group.

Sarah is currently a member of the Australia Post Customer Advisory Group.

Sarah holds a Bachelor of Business (Retail Management) from the University of Victoria.

Section 6. Key People, Interests, Benefits

Name	Expertise, experience and qualifications
 <p>Dan Ferguson <i>Chief Marketing Officer</i></p>	<p>Dan Ferguson joined Adore Beauty in 2018 as Chief Marketing Officer and doubled returning customer growth and revenue in his first 6 months. Responsible for company growth, brand and data, he's led high and sustained rates of new customer acquisition through enhanced analytics and marketing initiatives including multiple new channels and the launch of Adore Beauty's Beauty IQ Uncensored podcast which is ranked #1 in Beauty and Fashion on iTunes as at 26 August 2020.</p> <p>Dan has over 20 years' experience in e-commerce and digital marketing. Prior to joining Adore Beauty, Dan had extensive roles growing and leading e-commerce, multi-channel and online retail business in Australia for local & global brands including Vistaprint, Officeworks, Dell with consistent average 2.5x business or portfolio growth across his tenure in these roles.</p> <p>Dan currently serves as Non-Executive Director for the energy start-up company, PowerClub and holds a Bachelor of Arts/Psychology (Honours) from the University of Sydney.</p>
 <p>Milly Gunn <i>Human Resources Manager</i></p>	<p>Milly Gunn joined Adore Beauty in 2018 as Human Resources Manager.</p> <p>Prior to joining Adore Beauty, Milly has experience in roles at Koko Black Chocolate and Fonda Mexican.</p> <p>Milly holds a Bachelor of Business (Human Resources Management) from Victoria University.</p>

6.3. Interests and benefits

This Section sets out the nature and extent of the interests and fees of certain persons involved in the Offer. Other than as set out below or elsewhere in this Prospectus, no:

- Director of the Company;
- person named in this Prospectus and who has performed a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; or
- Underwriter to the Offer or financial services licensee named in this Prospectus as a financial services licensee involved in the Offer,

holds as of the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- the Offer,

and no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given or agreed to be given, to any such person for services in connection with the formation or promotion of the Company or the Offer or to any Director to induce them to become, or qualify as, a Director of the Company.

6.3.1. Interests of advisers

The Company has engaged the following professional advisers in relation to the Offer:

- Morgan Stanley Securities Australia Limited and UBS AG, Australia Branch have acted as Joint Lead Managers to the Offer and the fees payable to the Joint Lead Managers pursuant to the Underwriting Agreement are described in Section 9.5.1;
- Shaw and Partners Limited have acted as Co-Lead Manager to the Offer and the fees payable to the Co-Lead Manager are described in Section 9.5.1;
- Crestone Wealth Management Limited, JBWere Limited and Morgan Stanley Wealth Management Australia Pty Ltd have acted as Co-Managers to the Offer and the fees payable to the Co-Managers are described in Section 9.5.1;
- KPMG Corporate Finance has acted as Financial Adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$2.72 million (excluding disbursements and GST) for these services;
- Gilbert + Tobin has acted as Australian legal adviser to the Company in relation to the Offer. The Company has paid, or agreed to pay, approximately \$950,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Gilbert + Tobin in accordance with its normal time-based charges;
- Grant Thornton Corporate Finance Pty Ltd has acted as the Investigating Accountant in connection with the Offer and has performed work in relation to the Investigating Accountant's Reports. The Company has paid, or agreed to pay, approximately \$220,000 (excluding disbursements and GST) for these services up until the Prospectus Date. Further amounts may be paid to Grant Thornton Corporate Finance Pty Ltd in accordance with its normal time-based charges;
- Grant Thornton Corporate Finance Pty Ltd has acted as the Australian taxation adviser in relation to the Offer. The Company has paid, or agreed to pay, approximately \$90,000 to Grant Thornton Corporate Finance Pty Ltd (excluding disbursements and GST) until the Prospectus Date. Further amounts may be paid to Grant Thornton Corporate Finance Pty Ltd in accordance with its normal time-based charges; and
- Frost & Sullivan has acted as the Independent Market Expert to the Offer and has prepared the Independent Market Report referred to in Section 2. The Company has paid, or has agreed to pay, approximately \$27,000 (excluding disbursements and GST) for these services up and until the Prospectus Date.

These amounts, and other expenses of the Offer, will be paid by the Company out of funds raised under the Offer or available cash. Further information on the use of proceeds and payment of expenses of the Offer is set out in Section 7.

6.4. Directors' interests and remuneration

6.4.1. Non-Executive Director remuneration

Under the Constitution, the Company in general meeting may determine the maximum aggregate remuneration to be provided to or for the benefit of the Non-Executive Directors as remuneration for their services as a Director. Further, under the ASX Listing Rules, the total amount of fees paid to the Non-Executive Directors (subject to certain exceptions) must not exceed in aggregate in any financial year the amount fixed by the Company's members in general meeting.

Initially, and until a different amount is determined, 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 utilised. This amount excludes, among other things, amounts payable to any executive Director under any executive services agreement with the Group or any special remuneration which the Board may grant to the Directors for special exertions or additional services performed by a Director for or at the request of the Company.

The following annual base fees are payable to Directors (with effect from Completion).

Director fees	\$	As at Completion
Chair	\$200,000	Justin Ryan
Non-Executive Director	\$100,000	Marina Go Sandra Birkenleigh

Section 6. Key People, Interests, Benefits

The following annual committee fees are payable to the Chair of the Audit and Risk Management Committee and People and Remuneration Committee (with effect from Completion).

Committee fees	Chair fee (\$)	As at Completion
Audit and Risk Management Committee	\$20,000	Sandra Birkenleigh
People and Remuneration Committee	\$20,000	Marina Go

Directors will not receive any additional fees for being a member of a Board committee.

All Directors' fees include superannuation payments required by law to be made.

a. Payments in connection with the Listing

In the event of the Listing, each Non-Executive Director (other than Justin Ryan) will receive a one-off bonus of \$50,000 to be applied by the Company as a subscription payment for Shares at the Offer Price (**IPO Shares**). The IPO Shares will be subject to the Company's Securities Trading Policy.

6.4.2. Deeds of access, insurance and indemnity

The Company has entered into a deed of access, insurance and indemnity with each Director. Each deed contains the Director's right of access to certain books and records of the Company or Group Company for the period from the date of the deed until seven years after the Director ceases to hold office of the Company or Group Company. This seven-year period can be extended where certain proceedings or investigations commence before the seven year period expires.

Pursuant to the Constitution, the Company may indemnify all Directors, executive officers and other officers, past and present, against all liabilities incurred as an officer of the Company or Group Company to the extent permitted by law. Under the deed of access, insurance and indemnity, the Company indemnifies each Director against any liability that may arise from their position as an officer of the Company or Group Company, to the extent permitted by law. The deed provides that the Company must meet the full amount of any such liabilities, including legal costs that are reasonably incurred, charges and expenses.

Pursuant to the Constitution, the Company may arrange and maintain directors' and officers' insurance for its Directors to the extent permitted by law. Under the deed of access, insurance and indemnity, the Company must maintain such insurance for the period from the date of the deed until seven years after the Director ceases to hold office of the Company or Group Company. This seven-year period can be extended where certain proceedings or investigations commence before the seven-year period expires.

In this summary, "Group Company" means the Company, a subsidiary of the Company, any companies which are 50% or more owned directly or indirectly by any other Group Company, or any partnership or unincorporated joint venture in which any Group Company or a related body corporate of the Company has an interest of 50% or more.

6.4.3. Directors' interests in Shares and other securities

The Directors are not required by the Constitution to hold any Shares.

The Directors' interests in Shares and other securities in the Company as at the Prospectus Date and as at Completion are set out in the table below:

Director*	Interests held at the Prospectus Date		Interests held at Completion	
	Shares	Performance Rights	Shares	Performance Rights
Kate Morris	17,000,000 ¹	Nil	10,200,000	Nil
James Height	17,000,000 ¹	Nil	10,200,000	Nil
Justin Ryan	Nil ²	Nil	Nil	Nil
Marina Go	Nil	Nil	7,407 ³	Nil
Sandra Birkenleigh	Nil	Nil	7,407 ³	Nil

1. Kate Morris and James Height have expressed an intention to act in concert in relation to their Shares. As a result, Kate Morris and James Height are associates for the purposes of section 12(2)(c) of the Corporations Act and each of them has voting power in the other's shares.

2. Justin Ryan will have an indirect interest in Shares through investment vehicles that hold an interest in Quadrant Growth Fund (alongside a number of other investors).

3. IPO Shares.

The Directors (and their associated entities) are entitled to apply for Shares under the Offer. The above table, other than in relation to the IPO Shares to be issued to Marina Go and Sandra Birkenleigh, does not take into account any Shares the Directors (and their associated entities) may acquire under the Offer. Shares acquired under the Priority Offer will not be subject to voluntary escrow arrangements.

Final shareholdings held directly or indirectly by the Directors (and their associated entities) will be notified to ASX following Listing. The Shares recorded in the above table as held by Kate Morris and James Height will be subject to voluntary escrow arrangements as outlined in Section 9.6.

Kate Morris and James Height will each receive approximately \$0.194 per Share held as at the Prospectus Date as part of the Pre-IPO Capital Reduction.

6.4.4. Other information about Directors' interests and benefits

Directors may also be reimbursed travel and other expenses incurred in attending to company affairs, including attending and returning from general meetings or meetings of the Board or committees of the Board. A Director who performs additional or special duties for the Company at the request of the Board may be paid such additional or special remuneration (as determined by the Board).

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

6.4.5. Executive remuneration

The key management personnel of the Company are Kate Morris (Executive Director), James Height (Executive Director), Tennealle O'Shannessy (Chief Executive Officer) and Stephanie Carroll (Chief Financial Officer). Their employment arrangements are set out below.

i. Kate Morris (Executive Director)

Term	Description
Employer	Adore Opco
Role	Executive Director (part time)
Fixed annual remuneration	Kate is entitled to receive annual fixed remuneration of \$181,654 (exclusive of superannuation).
Short term incentive (STI)	None
Long term incentive (LTI)	None
Notice period, termination and termination payments	<p>Either Kate or Adore Opco can terminate Kate's employment by giving the other party 12 months' notice in writing (or by Adore Opco making payment in lieu of notice of part or all of Kate's notice period). Adore Opco may summarily terminate Kate's employment in certain circumstances, including where Kate engages in any act or omission constituting serious misconduct.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>
Non-solicitation/restrictions of future activities	<p>Kate's employment contract contains restraints that apply during her employment and for 12 months post-employment, including:</p> <ul style="list-style-type: none"> • non-competition restraints; • restrictions against soliciting Adore Opco customers and suppliers; and • restrictions against influencing employees to resign from Adore Opco or enter into employment with any other person. <p>The restrictions above purport to operate in Australia and New Zealand and the enforceability of these restraints is subject to all usual legal requirements.</p>

Section 6. Key People, Interests, Benefits

ii. James Height (Executive Director)

Term	Description
Employer	Adore Opco
Role	Executive Director (part time)
Fixed annual remuneration	James is entitled to receive annual fixed remuneration of \$181,654 (exclusive of superannuation).
Short term incentive (STI)	None
Long term incentive (LTI)	None
Notice period, termination and termination payments	<p>Either James or Adore Opco can terminate James's employment by giving the other party 12 months' notice in writing (or by Adore Opco making payment in lieu of notice of part or all of James's notice period). Adore Opco may summarily terminate James's employment in certain circumstances, including where James engages in any act or omission constituting serious misconduct.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>
Non-solicitation/ restrictions of future activities	<p>James's employment contract contains restraints that apply during his employment and for 12 months post-employment, including:</p> <ul style="list-style-type: none"> • non-competition restraints; • restrictions against soliciting Adore Opco customers and suppliers; and • restrictions against influencing employees to resign from Adore Opco or enter into employment with any other person. <p>The restrictions above purport to operate in Australia and New Zealand and the enforceability of these restraints is subject to all usual legal requirements.</p>

iii. Tennealle O'Shannessy (Chief Executive Officer)

Term	Description
Employer	Adore Opco
Role	Chief Executive Officer (full time)
Fixed annual remuneration	Tennealle is entitled to receive annual fixed remuneration of \$500,000 (exclusive of superannuation). Tennealle's superannuation contributions are capped at the maximum contribution base as referred to in the <i>Superannuation Guarantee Administration Act 1992</i> (Cth).
Short term incentive (STI)	Tennealle will not participate in any STI program during FY2021. However, the Board may, at its absolute discretion, determine that Tennealle will be eligible to participate in an STI program in subsequent years.
Long term incentive (LTI)	<p>Tennealle will be eligible to participate in the Company's LTI plan on the terms outlined in Section 6.4.1.7.</p> <p>The Company intends to grant 555,000 options with an exercise price equal to the Offer Price to Tennealle on or around completion of the IPO.</p>

Term	Description
Notice period, termination and termination payments	<p>Tennealle's employment contract contains a six month probation period which commenced on 24 August 2020. During this period, either Tennealle or Adore Opco may terminate the employment on the giving of six months' notice. If Adore Opco terminates Tennealle's employment for poor performance (as determined by Adore Opco, acting reasonably), then the notice period required to be given is one month. In either case, Adore Opco may at its sole discretion elect to make a payment to Tennealle in lieu of the notice period.</p> <p>Either Tennealle or Adore Opco can terminate Tennealle's employment by giving the other party 6 months' notice in writing (or by Adore Opco making payment in lieu of notice of part or all of Tennealle's notice period). Adore Opco may summarily terminate Tennealle's employment in certain circumstances, including where Tennealle is guilty of serious misconduct or serious negligence.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>
Non-solicitation/restrictions of future activities	<p>Tennealle's employment contract contains restraints that apply during her employment and for 12 months post-employment, including:</p> <ul style="list-style-type: none"> • non-competition restraints; • restrictions against interfering with the relationship between any Group Company and any of their customers, contractors, suppliers, directors, managers, employees or consultants; and • restrictions against soliciting, employing or engaging any director, manager, employee or consultant of Adore Opco or its Related Bodies Corporate. <p>The restrictions above purport to operate in Australia and any other jurisdiction in which the Company or its Related Bodies Corporate carries on business and the enforceability of these restraints is subject to all usual legal requirements.</p>

iv. Stephanie Carroll (Chief Financial Officer)

Term	Description
Employer	Adore Opco
Role	Chief Financial Officer (full time)
Fixed annual remuneration	Stephanie is entitled to receive annual fixed remuneration of \$250,000 (exclusive of superannuation). Stephanie's superannuation contributions are capped at the maximum contribution base as referred to in the Superannuation <i>Guarantee Administration Act 1992</i> (Cth).
Short term incentive (STI)	Stephanie will not participate in any STI program during FY2021. However, the Board may, at its absolute discretion, determine that Stephanie will be eligible to participate in an STI program in subsequent years.
Long term incentive (LTI)	<p>Stephanie will be eligible to participate in the Company's LTI plan on the terms outlined in Section 6.4.1.7.</p> <p>The Company intends to grant 50,000 options with an exercise price equal to the Offer Price to Stephanie on or around completion of the IPO.</p>
Notice period, termination and termination payments	<p>Either Stephanie or Adore Opco can terminate Stephanie's employment by giving the other party 3 months' notice in writing (or by Adore Opco making payment in lieu of notice of part or all of Stephanie's notice period). Adore Opco may summarily terminate Stephanie's employment in certain circumstances, including where Tennealle is guilty of serious misconduct or serious negligence.</p> <p>All payments on termination will be subject to the termination benefits cap under the Corporations Act.</p>

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Term	Description
Non-solicitation/restrictions of future activities	<p>Stephanie's employment contract contains restraints that apply during her employment and for 12 months post-employment, including:</p> <ul style="list-style-type: none"> • non-competition restraints; • restrictions against interfering with the relationship between any Group Company and any of their customers, contractors, suppliers, directors, managers, employees or consultants; and • restrictions against soliciting, employing or engaging any director, manager, employee or consultant of Adore Opco or its Related Bodies Corporate. <p>The restrictions above purport to operate in Australia and any other jurisdiction in which the Company or its Related Bodies Corporate carries on business and the enforceability of these restraints is subject to all usual legal requirements.</p>

6.4.6. Short-Term Incentives (STI)

The CEO, CFO and Executive Directors will not participate in a Short-Term Incentive (**STI**) program in FY21. The Company's executive employment contracts recognise the potential for the award of short-term incentives in future years, which may become payable upon satisfaction of specified performance criteria. Participation in any STI program in any given year will be determined by the Board, in its absolute discretion, and will be conditional upon achievement of:

- individual performance criteria tailored to each respective role (if any); and
- the Company's financial performance against criteria set by the Board.

6.4.7. Long-Term Incentive Plan

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 options to acquire Shares, rights to acquire Shares and/or Shares as incentives (**Awards**), subject to the terms of individual offers.

The Company intends to grant 605,000 options in total (with an exercise price equal to the Offer Price) to the CEO, Tennealle O'Shannessy and CFO, Stephanie Carroll, on or around completion of the IPO, pursuant to offers made under the LTIP (**LTI Offer**).

A summary of the key terms of the LTIP is set out in the table below.

Term	Description
Eligibility	<p>The Board has the discretion to determine which employees are eligible to participate in the LTIP, and the number and type of Awards that they will be offered (LTIP Eligible Employee). The definition of employee under the LTIP rules includes any full-time or part-time employee, casual employee, director, contractor or prospective employee of a Group Company.</p>
Awards	<p>The Board has the discretion to set the terms and conditions on which it will offer Awards under the LTIP.</p> <p>The Board may determine that the Awards will be subject to performance, service, or other conditions which must be satisfied or waived before the Award vests (Vesting Conditions) and, if so, will specify those Vesting Conditions in the invitation to each LTIP Eligible Employee.</p> <p>In addition, the Board may determine that Awards in the form of options or rights will be subject to further conditions which must be satisfied or waived before vested options or rights may be exercised (Exercise Conditions).</p> <p>The Board may, at its discretion, vary, reduce or waive any Vesting Conditions and/or Exercise Conditions attaching to Awards at any time, subject to applicable law.</p>

Term	Description
Acquisition price	The grant of Awards under the LTIP may be subject to the payment of an acquisition price by the participant as determined by the Board, or otherwise Awards may be granted at no cost to the participant.
Exercise price	The exercise of Awards in the form of options or rights may be subject to payment of an exercise price by the participant as determined by the Board. The exercise price for the options to be granted to the CEO and CFO at, or about, the time of IPO will be equal to the Offer Price.
Shares as an Award or on vesting of an Award	<p>Shares granted under the LTIP or issued or transferred on the exercise of options or rights will rank equally in all respects, and carry the same rights and entitlements, as other issued Shares, including dividend and voting rights.</p> <p>Depending on the terms of an Award, Shares may be subject to disposal restrictions, which means that they may not be disposed of or dealt with for a period of time.</p>
Vesting of Shares	<p>Shares granted under the LTIP which have not been forfeited under the LTIP will vest if and when any applicable Vesting Conditions have been satisfied or waived by the Board.</p> <p>Unless otherwise specified in an invitation, on vesting, Shares will cease to be subject to disposal restrictions and the forfeiture provisions of the LTIP. Alternatively, the Board may determine to make a cash payment in lieu of the release of Shares from restriction (in which case, the Company will buy-back and cancel the Shares or deal with the Shares in any other manner determined by the Board).</p>
Vesting and exercise of options and rights	<p>Options and rights which have not lapsed under the LTIP will vest if and when any applicable Vesting Conditions have been satisfied or waived by the Board. However, vested options or rights will not become exercisable until any applicable Exercise Conditions have been satisfied or waived by the Board.</p> <p>Following the valid exercise of an option or right, the Company will issue or arrange the transfer of such number of Shares to the participant that relate to the option or right being exercised. Alternatively, the Board may determine to make a cash payment in lieu of the issue or transfer of Shares.</p>
Expiry of options and rights	Options or rights which have not been exercised by the date 15 years from the date of grant of the options or rights, or such other date determined by the Board and specified in the invitation (Expiry Date), will lapse unless the Board determines otherwise.
Forfeiture/lapse of Awards	<p>Unless otherwise determined by the Board, a Share granted under the LTIP will be forfeited, and an option or right will lapse, in certain circumstances including:</p> <ul style="list-style-type: none"> • where the Board determines that any Vesting or Exercise Condition applicable to the Award cannot be satisfied; • in the case of an option or right, on the Expiry Date applicable to the option or right; • in certain circumstances if the participant's employment is terminated (see 'Cessation of employment' below); • if the Board determines that the Award is liable to clawback (see 'Clawback and malus' below) • if the Board determines that the Award will be forfeited or lapse in the event of a change of control in respect of the Company; and • where the participant purports to dispose of the Award, or enter into any arrangement in respect of the Award, in breach of any disposal or hedging restrictions.
Dividend and voting entitlements	Awards, other than Shares, are not entitled to dividend or voting rights. However, the Board may determine prior to making an invitation that any options or rights the subject of the offer will carry rights entitling the holder to receive a payment in cash or Shares equivalent to the value of dividends that would have been payable to the holder had they been the holder of the underlying Shares over which the option or right is exercisable.

Section 6. Key People, Interests, Benefits

Term	Description
Participation rights of options and rights	Options and rights do not confer the right to participate in new issues of Shares or other securities in the Company. However, subject to the Listing Rules, the LTIP provides for adjustments to be made to the number of Shares which a participant would be entitled on the exercise of options or rights or the exercise price (if any) of the options or rights in the event of a bonus issue or pro-rata issue to existing holders of Shares (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment) or a reorganisation of capital.
Restrictions	Awards may not be sold, transferred, mortgaged, pledged, charged, granted as security or otherwise disposed of, without the prior approval of the Board, or unless required by law. Participants must not enter into any arrangement for the purpose of hedging, or otherwise affecting their economic exposure to any unvested Shares, or options or rights.
Quotation	Awards, except Shares, will not be quoted on the ASX. The Company will apply for official quotation of any Shares issued under the LTIP, in accordance with the Listing Rules.
Cessation of employment	The Board has discretion to determine, subject to compliance with applicable law, the treatment of an Award if a participant ceases to be employed by a Group Company prior to the vesting or exercise of an Award, or an Award ceasing to be subject to any disposal restrictions as a term of the invitation or at the time of cessation.
Clawback and malus	The LTIP provides the Board with broad clawback powers. If, for example, the Board becomes aware of a material misstatement in the Company's financial statements, that a participant has committed an act of fraud, negligence or gross misconduct or failed to comply in a material respect with any restrictive covenant or that some other event has occurred which, as a result, means that a participant's Award should be reduced or extinguished, or should not vest, then the Board may clawback or adjust any such Award at its discretion to ensure no unfair benefit is derived by the participant.
Change of control	If a change of control event occurs with respect to the Company, the Board may determine, in its discretion, the manner in which all unvested Shares, or options or rights, will be dealt with.

The options to be granted under the LTI Offer will be on the terms generally described above and as set out in the table below.

Term	Description
Eligibility	The LTI Offer is being made to the CEO, Tennealle O'Shannessy and CFO, Stephanie Carroll, only.
Grant date	On or around completion of the IPO.
Quantum of grant	Tennealle O'Shannessy will be granted 555,000 options Stephanie Carroll will be granted 50,000 options.
Acquisition price	Options to be granted under the LTI Offer will be issued at no cost to the participant.
Exercise price	Options to be granted under the LTI Offer will have an exercise price equal to the Offer Price.
Performance period	The LTI Offer will be subject to the performance period which commences on the date of grant and which ends on 30 June 2024.
Vesting Conditions	Options granted as part of the LTI Offer which have not lapsed will vest based on performance of the Company measured at the end of the performance period.

Term	Description																				
Vesting Conditions <i>continued</i>	<p>Of the total number of options to be granted pursuant to the LTI Offer:</p> <ul style="list-style-type: none"> • 50% will be 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% will be subject to the satisfaction of a Vesting Condition relating to the Company's EBITDA growth during the performance period (EBITDA Component). <p>Revenue Component</p> <p>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:</p> <table> <tr> <th>Company's revenue at the end of the performance period</th><th>% of options that vest</th></tr> <tr> <td>Less than threshold revenue</td><td>Nil</td></tr> <tr> <td>Equal to threshold revenue</td><td>50%</td></tr> <tr> <td>Between threshold and maximum revenue</td><td>Straight line pro rata vesting between 50% and 100%</td></tr> <tr> <td>At or above maximum revenue</td><td>100%</td></tr> </table> <p>Threshold and maximum levels of performance will be set by the Board.</p> <p>EBITDA Component</p> <p>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:</p> <table> <tr> <th>Company's EBITDA growth over the performance period</th><th>% of options that vest</th></tr> <tr> <td>Less than threshold EBITDA growth</td><td>Nil</td></tr> <tr> <td>Equal to threshold EBITDA growth</td><td>50%</td></tr> <tr> <td>Between threshold and maximum EBITDA growth</td><td>Straight line pro rata vesting between 50% and 100%</td></tr> <tr> <td>At or above maximum EBITDA growth</td><td>100%</td></tr> </table> <p>Threshold and maximum levels of performance will be set by the Board.</p> <p>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.</p>	Company's revenue at the end of the performance period	% 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%	Company's EBITDA growth over the performance period	% of options that vest	Less than threshold EBITDA growth	Nil	Equal to threshold EBITDA growth	50%	Between threshold and maximum EBITDA growth	Straight line pro rata vesting between 50% and 100%	At or above maximum EBITDA growth	100%
Company's revenue at the end of the performance period	% 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%																				
Company's EBITDA growth over the performance period	% of options that vest																				
Less than threshold EBITDA growth	Nil																				
Equal to threshold EBITDA growth	50%																				
Between threshold and maximum EBITDA growth	Straight line pro rata vesting between 50% and 100%																				
At or above maximum EBITDA growth	100%																				
Exercise	<p>The Company will give the participants in the LTI Offer a vesting notice upon Vesting Conditions having been satisfied or waived by the Board.</p> <p>Subject to applicable Vesting Conditions having been satisfied or waived and the option not having lapsed in accordance with the terms of the LTIP, options the subject of the LTI Offer may be exercised at any time from the date specified in the vesting notice until the Expiry Date (being 30 June 2026) by the participant giving an exercise notice to the Company and paying the exercise price.</p>																				
Restrictions on dealing	Participants will be free to deal with the Shares allocated on vesting of options the subject of the LTI Offer, subject to the requirements of the Company's Securities Trading Policy.																				

Section 6. Key People, Interests, Benefits

Term	Description
Cessation of employment	<p>Generally, if a participant ceases employment in 'good leaver' circumstances (including due to death, terminal illness, total and permanent disablement, mental illness, genuine redundancy or retirement), the participant will be entitled to retain a pro-rata amount of their unvested options based on the proportion of the performance period which has elapsed at the date that employment ceases, and all other unvested options will be forfeited or lapse. Any retained options will remain subject to any applicable Vesting Conditions.</p> <p>If a participant ceases employment in 'bad leaver' circumstances (ie where they are not a 'good leaver'), unless the Board determines otherwise, all of their unvested options will be forfeited or lapse, and the participant will be required to exercise any vested options within 60 days or they will also lapse.</p> <p>Notwithstanding the above, the Board may also, subject to any requirement for shareholder approval, determine to treat awards in a different manner to that set out above.</p>

6.4.8. Management Equity Plan

The Company previously established an equity incentive plan under which key management 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 described below to ensure that participants continue to be motivated to achieve sustained growth for shareholders following Listing.

a. Loan Shares

Certain key management personnel, including the CEO, Tennealle O'Shannessy and CFO, Stephanie Carroll, will be entitled to have their existing management shares converted or varied into ordinary shares immediately prior to Completion. 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.

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, held by Tennealle O'Shannessy and Stephanie Carroll, will be subject to the Company's **Loan Funded Share Plan Deed**. The Loan Shares will be subject to the Company's Securities Trading Policy and to escrow arrangements described in Section 9.6 of this Prospectus.

The total number of Loan Shares granted is 955,352 and details about the Loan Shares, including the loan amounts outstanding, are set out in the table below.

Participant	Number of Loan Shares Held	Loan amount	Vesting
Tennealle O'Shannessy	868,502	\$868,502	<p>Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:</p> <p>a. 25% of the Loan Shares will vest on completion of the IPO;</p> <p>b. a further 25% of the Loan Shares will vest on 30 June 2021;</p> <p>c. a further 25% of the Loan Shares will vest on 30 June 2022; and</p> <p>d. the final 25% of the Loan Shares will vest on 30 June 2023.</p>
Stephanie Carroll	86,850	\$86,850	<p>Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:</p> <p>a. 25% of the Loan Shares will vest on completion of the IPO;</p> <p>b. a further 25% of the Loan Shares will vest on 30 June 2021;</p> <p>c. a further 25% of the Loan Shares will vest on 30 June 2022; and</p> <p>d. the final 25% of the Loan Shares will vest on 30 June 2023.</p>

In addition to the terms of the Loan Funded Share Plan Deed, Tennealle O'Shannessy and Stephanie Carroll's invitation letters under the Loan Funded Share Plan Deed contain provisions concerning the 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 Opco of the terms of the participant's employment contract; and
- is a "Good Leaver" (i.e. not a "Bad Leaver") she will be entitled to retain her vested Loan Shares and will also be entitled to retain her unvested Loan Shares provided that the terms of their invitation letter (including the vesting condition outlined above) and the Loan Funded Share Plan Rules will continue to apply save that the requirement that the participant continues to be employed or engaged by the Company or a subsidiary of the Company will be deemed to be waived.

6.4.9. Related party agreements

Other than as disclosed in this Prospectus, Adore Beauty is not party to any material related party arrangements.

6.4.10. Corporate governance

This Section explains how the Board oversees the management of the Company's business. The Board is responsible for the overall corporate governance of the Company, including establishing and monitoring key performance goals. The Board monitors the operational and financial position and performance of the Company and oversees its business strategy, including approving the strategic goals of the Company and considering and approving an annual business plan (including a budget).

The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of the Company. In conducting the Company's business with these objectives, the Board seeks to ensure that the Company is properly managed to protect and enhance Shareholder interests, and that the Company and its Directors, officers and personnel operate in an appropriate environment of corporate governance. Accordingly, the Board has created a framework for managing the Company, including adopting relevant internal controls, risk management processes and corporate governance policies and practices which it believes are appropriate for the Company's business and which are designed to promote the responsible management and conduct of the Company.

The Company is seeking a listing on the ASX. The ASX Corporate Governance Council has developed and released its fourth edition of the Corporate Governance Principles and Recommendations for Australian listed entities in order to promote investor confidence and to assist companies in meeting stakeholder expectations. The ASX Recommendations are not prescriptions, but guidelines. However, under the ASX Listing Rules, the Company will be required to provide a statement in its annual report disclosing the extent to which it has followed the ASX Recommendations in the reporting period. Where the Company does not follow a recommendation, it must identify the recommendation that has not been followed and give reasons for not following it and must also disclose what (if any) alternative governance practices it adopted instead of the recommendation during that period.

Prior to Completion, copies of the Company's key policies and practices and the charters for the Board and each of its committees will be available at <https://events.miraql.com/adorebeauty-offer>.

6.4.11. The Board of Directors

The name and biographical details of the current members of the Board of Directors are contained in Section 6.1.

Each Director has confirmed to the Company that he or she anticipates being available to perform his or her duties as a Non-Executive Director or Executive Director without constraint having regard to their other commitments.

The Board considers an independent Director to be a Non-Executive Director who is free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, his or her capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its security holders generally. The Board will consider the materiality of any given relationship on a case-by-case basis and has adopted guidelines to assist in this regard. The Board reviews the independence of each Director in light of interests disclosed to the Board from time to time. In assessing independence, the Board will have regard to the ASX Recommendations.

Section 6. Key People, Interests, Benefits

The Board Charter sets out guidelines of materiality for the purpose of determining independence of Directors in accordance with the ASX Recommendations and has adopted a definition of independence that is based on that set out in the ASX Recommendations.

Marina Go and Sandra Birkenleigh are considered to be independent directors.

Each of Kate Morris and James Height is currently considered by the Board not to be independent on the basis that they are employed in an executive capacity by Adore Beauty and are and will continue to be significant shareholders post listing.

Justin Ryan is currently considered by the Board not to be independent having regard to his role with Quadrant Growth Fund which is and will continue to be a significant shareholder post listing. The current structure and composition of the Board and its committees has been determined having regard to the nature and size of Adore Beauty's operations, the skill set of Adore Beauty's directors both individually and collectively, and the best interests of Shareholders.

As at the date of this Prospectus, Adore Beauty will be compliant with the ASX Recommendations except as set out in the table below:

ASX Recommendations	Summary of position of Adore Beauty
Recommendation 2.4 A majority of the board of a listed entity should be independent directors.	The current structure and composition of the Board has been determined having regard to the nature and size of Adore Beauty's operations, the skill set of Adore Beauty's directors both individually and collectively, and the best interests of Shareholders. However, due to the current composition of the Board, the Company does not have a majority independent directors. Adore Beauty is satisfied that the current composition of the Board is sufficient and that non-compliance with Recommendation 2.4 will not be detrimental to Adore Beauty.
Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.	The current structure and composition of the Board has been determined having regard to the nature and size of Adore Beauty's operations, the skill set of Adore Beauty's directors both individually and collectively, and the best interests of Shareholders. However, Justin Ryan is currently considered by the Board not to be independent having regard to his role with Quadrant Growth Fund which is and will continue to be a significant shareholder post listing. Adore Beauty is satisfied that non-compliance with Recommendation 2.5 will not be detrimental to Adore Beauty.

6.4.12. Board Charter

The Board Charter adopted by the Board sets out the responsibilities of the Board in greater detail. It provides that the Board should comprise Directors with the appropriate mix of skills, experience, expertise and diversity which are relevant to the Company's businesses and the Board's responsibilities. The Board Charter allows the Board to delegate powers and responsibilities to committees established by the Board. The Board retains ultimate accountability to Shareholders in discharging its duties.

6.4.13. Board Committees

The Board may from time to time establish appropriate committees to assist in the discharge of its responsibilities. The Board has established an Audit and Risk Management Committee and a People and Remuneration Committee.

Other committees may be established by the Board as and when required. Membership of Board committees will be based on the needs of the Company, relevant legislative and other requirements, and the skills and experience of individual Directors.

i. Audit and Risk Management Committee

The role of the Audit and Risk Management Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Company's financial reporting, internal control structure, risk management systems and internal and external audit functions. This includes confirming the quality and reliability of the financial information prepared by the Company, working with the external auditor on behalf of the Board and reviewing non-audit services provided by the external auditor to confirm they are consistent with maintaining external audit independence.

The Audit and Risk Management Committee provides advice to the Board and reports on the status and management of the risks to the Company. The purpose of the Committee's risk management process is to assist the Board in relation to risk management policies, procedures and systems and ensure that risks are identified, assessed and appropriately managed.

The Company will comply with the recommendations set by the ASX Corporate Governance Council in relation to the composition and operation of the Committee. The Committee will comprise of Sandra Birkenleigh (Chair), Marina Go, and Justin Ryan.

ii. People and Remuneration Committee

The role of the People and Remuneration Committee is to assist the Board in fulfilling its responsibilities for corporate governance and overseeing the Company's people and remuneration strategies and policies.

This includes reviewing and making recommendations to the Board on remuneration packages and policies related to the Directors and senior executives. The People and Remuneration Committee is also responsible for administering short term and long term incentive plans (including any equity plans). In addition, the Committee is responsible for reviewing and making recommendations in relation to the composition and performance of the Board and its committees and ensuring that adequate succession plans are in place (including for the recruitment and appointment of Directors and senior management). Independent advice will be sought where appropriate.

The Company will comply with the recommendations set by the ASX Corporate Governance Council in relation to the composition and operation of the Committee. The Committee will comprise of Marina Go (Chair), Sandra Birkenleigh, and Kate Morris.

6.4.14. Corporate governance policies

The Board has adopted the following corporate governance policies, each of which has been prepared having regard to the ASX Principles.

i. Disclosure Policy

Once listed on ASX, Adore Beauty will need to comply with the continuous disclosure requirements of the ASX Listing Rules and the Corporations Act. Adore Beauty will be required to disclose to ASX any information concerning the Company which is not generally available and which a reasonable person would expect to have a material effect on the price or value of Adore Beauty's Shares were that information to be generally available. Adore Beauty is committed to observing its disclosure obligations. As such, this policy sets out certain procedures and measures which are designed to ensure that the Company complies with its continuous disclosure obligations. Information will be communicated to Shareholders through the lodgement of all relevant financial and other information with ASX, and continuous disclosure announcements will be made available on the Company website, <https://www.adorebeautygroup.com.au/>.

ii. Shareholder Communication Policy

The Board's aim is to ensure that Shareholders are informed in a timely and readily accessible manner of all major developments affecting the state of affairs of Adore Beauty. Information will be communicated to Shareholders through the lodgement of information with ASX as required by Adore Beauty's continuous disclosure obligations and publishing information on Adore Beauty's website at <https://www.adorebeautygroup.com.au/>. The website will contain information about Adore Beauty, including periodic releases, key policies, the terms of reference of Board committees and other information relevant to Shareholders. All announcements made to the market and any other relevant information will be posted on the website following release to ASX.

iii. Securities Trading Policy

Adore Beauty has adopted a securities trading policy which will apply to Adore Beauty's Directors, senior management and any other person designated by the Board from time to time. This policy is designed to explain the types of conduct in relation to dealings in Shares that are prohibited under the Corporations Act and to establish procedures in relation to such persons' dealing in the Shares. Subject to certain exceptions, the securities trading policy defines certain "blackout periods" during which trading in Shares by Adore Beauty's Directors, officers, employees, contractors and people close to them is prohibited.

Section 6. Key People, Interests, Benefits

iv. Code of Conduct

The Board recognises the need to observe the highest standards of corporate practice and business conduct. Accordingly, the Board has adopted a code of conduct which sets out the standards of ethical behaviour that Adore Beauty expects from its Directors, officers, employees, contractors, consultants and managers. Adore Beauty will carry on business honestly and fairly, acting only in ways that reflect well on Adore Beauty in strict compliance with all laws and regulations.

v. Diversity and Inclusion Policy

The workforce of Adore Beauty is made up of individuals with diverse skills, backgrounds, perspectives and experiences, and this diversity is recognised, valued and respected. The Diversity and Inclusion policy aims to align Adore Beauty's business operations with the positive outcomes that can be achieved through a diverse workforce that recognises and utilises the contribution of diverse skills and talents amongst its Board, management and employees.

vi. Whistleblower Protection Policy

Adore Beauty has adopted a whistleblower policy to encourage its employees, suppliers, contractors, customers, tenderers and other persons who have business dealings with Adore Beauty to raise any concerns and report instances of unethical, illegal, socially irresponsible or fraudulent conduct, where there are reasonable grounds to suspect such conduct, without fear of intimidation, disadvantage or reprisal. The whistleblower policy sets out Adore Beauty's commitment to investigating all matters reported in an objective and fair manner as soon as possible after the matter has been reported. The Board will be informed of any material concerns raised under the whistleblower policy that call into question the culture of Adore Beauty.

vii. Anti-bribery and Corruption Policy

Adore Beauty is committed to operating in a manner consistent with the laws and regulations of the jurisdictions in which its businesses operate, including those relating to bribery and corruption. Accordingly, the Board has adopted an anti-bribery and corruption policy which sets out the responsibilities of Adore Beauty and its employees or other personnel or representatives in observing and upholding the prohibition on bribery and related improper conduct and provides information and guidance on how to recognise and deal with instances of bribery and corruption. The Board will be informed of any material breaches of the anti-bribery and corruption policy.

6.5. Related party interests

6.5.1. Findation

Kate Morris and James Height, Executive Directors of Adore Beauty, are each also directors and 33.3% shareholders of Findation Pty Ltd (**Findation**), a company that owns a foundation colour matching software. Findation licences this software to third parties, including Adore Beauty. Findation and Adore Beauty have agreed commercial terms that are on arm's length terms or better for Adore Beauty in relation to use of the software by Adore Beauty on a casual month-to-month basis, with a fee-per-use payment structure. In FY20, Adore Beauty's payments to Findation for use of the software totalled \$19,170.09.

Section 7.

Details of the Offer



Section 7. Details of the Offer

7.1. Description of the Offer

This Prospectus relates to an initial public offering of new Shares by the Company and the sale of Existing Shares by SaleCo at an Offer Price of \$6.75 per Share. A total of 39.9 million Shares will be available under the Offer. These Shares will be available for investors under the Broker Firm Offer, the Institutional Offer and the Priority Offer.

The Shares offered under this Prospectus will represent approximately 42.4% of the Shares on issue at Completion of the Offer. The Offer (excluding the Employee Gift Offer, under which no proceeds will be raised) is expected to raise approximately \$40.0 million from the issue of New Shares by the Company and for the Company's benefit and approximately \$229.5 million from the sale of Existing Shares by SaleCo.

The total number of Shares on issue at Completion will be 94.1 million and all Shares will, once issued, rank equally with each other.

The Shares held by certain of the Existing Shareholders will be subject to escrow arrangements described in Section 9.6 of this Prospectus.

The Offer (other than the Employee Gift Offer) has been fully underwritten by the Joint Lead Managers. A summary of the Underwriting Agreement including the events which would entitle the Joint Lead Managers to terminate the Underwriting Agreement is set out in Section 9.5.1.1.

The Offer is made on the terms, and is subject to the conditions, set out in this Prospectus.

7.1.1. Structure of the Offer

The Offer comprises the following components:

- the **Broker Firm Offer**, which is an offer to Australian resident retail clients of Brokers who have received a firm allocation of Shares from their Broker (see Section 7.3);
- the **Priority Offer**, which is open to selected investors in Australia nominated by the Company (see Section 7.4);
- the **Employee Gift Offer**, which is open to Eligible Gift Employees who have received an offer from the Company to acquire, at no cost, \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price) (see Section 7.5); and
- the **Institutional Offer**, which consists of an offer to Institutional Investors in Australia and certain other jurisdictions around the world, made under this Prospectus (see Section 7.8).

The Broker Firm Offer, the Priority Offer and the Employee Gift Offer are collectively referred to as the "**Retail Offer**".

No general public offer of Shares will be made under the Offer. Members of the public wishing to apply for Shares under the Offer must do so through a Broker with a firm allocation of Shares under the Broker Firm Offer. The allocation of Shares between the Broker Firm Offer, the Priority Offer, the Employee Gift Offer and the Institutional Offer will be determined by agreement between Adore Beauty and the Joint Lead Managers, having regard to the allocation policies outlined in Section 7.3.4, Section 7.4.4, Section 7.5.4 and Section 7.8.2.

7.1.2. Purpose of the Offer

The purpose of the Offer is to:

- provide funding and financial flexibility for general corporate purposes, including to support the Company's growth strategy and future growth opportunities;
- allow Existing Shareholders to realise part of their investment in Adore Beauty through the sale of Existing Shares through SaleCo;
- broaden Adore Beauty's shareholder base and provide a liquid market for Shares;
- provide Adore Beauty with the benefits of an increased brand profile that arises from being a publicly listed entity; and
- pay transaction costs.

7.1.3. Sources and uses of funds

The proceeds of the Offer received by the Company will be applied as described in Figure 51. The Offer is expected to raise gross proceeds of approximately \$269.5 million. The proceeds of the Offer received by SaleCo in respect of the sale of Shares by it will be paid to SaleCo and paid by SaleCo to the Selling Shareholders.

Figure 51: Sources and uses of funds

Sources of funds	\$ million	Uses of funds	\$ million
Adore Beauty			
Cash proceeds received by Adore Beauty under the Offer from the issue of Shares	40.0	Transaction costs ¹	16.4
		General corporate purposes, including flexibility to support Adore Beauty's growth strategy	23.6
SaleCo			
Cash proceeds received under the Offer from the sale of Shares by SaleCo	229.5	Payments to Selling Shareholders	229.5
Total sources	269.5	Total uses	269.5

Note:

1. Transaction costs includes the fees payable to advisers as referred to in Sections 6.31.1, as well as other costs such as registry fees, ASX listing fees and other adviser fees.

The Board retains the right to vary these uses of funds, acting in the best interests of Shareholders and as circumstances require.

7.1.4. Pro forma historical statement of financial position

The Company's Pro Forma Historical Statement of Financial Position following Completion, including details of the pro forma adjustments, is set out in Section 4.5.

7.1.5. Shareholding structure of Adore Beauty

The Company's ownership structure on the Prospectus Date and following Completion of the Offer is set out in Figure 52 below.

Figure 52: Ownership structure

Shareholder ^{1,2}	Prospectus Date		Completion	
	Shares	%	Shares	%
Quadrant Growth Fund	51,000,001	57.8%	30,600,001	32.5%
Kate Morris	17,000,000	19.3%	10,200,000	10.8%
James Height	17,000,000	19.3%	10,200,000	10.8%
Management Shareholders	3,199,163	3.6%	3,199,163	3.4%
New Shares to be issued under the Offer or at Completion of the Offer ³	–	–	5,925,925	6.3%
Existing Shares to be sold under the Offer	–	–	34,000,000	36.1%
Total³	88,199,164	100%	94,125,089	100%

Notes:

- Shareholders may hold their interests in Shares directly, or through entities associated with them (e.g. through holdings by companies or trusts).
- Refer also to Section 6.3 for further information on interests and benefits (including Directors' interests in Shares).
- Assuming all Shares under the Employee Offer are taken up.

The Share numbers presented in Figure 52 have been rounded up. This also excludes any Shares that may be acquired by Directors (or their associated entities), key management or other employees under the Offer. At Completion, 54,199,164 of the Shares will be subject to voluntary escrow arrangements. In the opinion of the Company, the free float of Shares at the time of Listing on the Official List will be no less than 20% of Shares on issue at that time. See Section 9.6 for further information.

Section 7. Details of the Offer

7.1.6. Control implications of the Offer

The Directors do not expect any single Shareholder to control the Company on Completion (based on the definition of “control” in Section 50AA of the Corporations Act).

7.1.7. Potential effect of the Offer on the future of Adore Beauty

The Directors believe that on Completion, Adore Beauty will have sufficient working capital from the funds raised from the Offer and its operations to carry out its stated objectives in this Prospectus.

7.2. Terms and conditions of the Offer

Figure 53: Terms and conditions of the Offer

What is the type of security being offered?	Shares (being fully paid ordinary shares in the issued capital of Adore Beauty).
What are the rights and liabilities attached to the security being offered?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 7.12.
What is the consideration payable for the Shares?	Successful applicants under the Offer (other than the Employee Gift Offer) will pay the Offer Price, being \$6.75 per Share.
What is the Offer period?	<p>The Retail Offer will open at 9.00am (Melbourne time) on Wednesday, 14 October 2020 and will close at 5.00pm (Melbourne time) on Wednesday, 21 October 2020.</p> <p>The key dates, including details of the Offer Period, are set out on page 4 of this Prospectus. The timetable is indicative only and may change. Unless otherwise indicated, all times are stated in Australian Eastern Standard time. The Company and SaleCo, in consultation with the Joint Lead Managers, reserve the right to vary both of the above times and dates without notice (including, subject to the ASX Listing Rules and the Corporations Act, to close the Offer early, to extend the Offer Period relating to any component of the Offer, or to accept late Applications or bids, either generally or in particular cases, or to cancel or withdraw the Offer before Settlement, in each case without notifying any recipient of this Prospectus or any Applicants). If the Offer is cancelled or withdrawn before the allocation of Shares, then all Application Monies will be refunded in full (without interest) as soon as possible in accordance with the requirements of the Corporations Act.</p> <p>No Shares will be issued on the basis of this Prospectus later than the expiry date of 13 months after the Prospectus Date.</p>
What are the cash proceeds to be raised under the Offer?	Approximately \$269.5 million will be raised if the Offer proceeds (comprising \$40.0 million from the issue of New Shares by Adore Beauty for Adore Beauty’s benefit and \$229.5 million for the sale of Existing Shares held by SaleCo).
Is the Offer underwritten?	The Joint Lead Managers have fully underwritten the Offer (other than the Employee Gift Offer) pursuant to the Underwriting Agreement. Details are provided in Section 9.5.1.1.
Who is the Lead Manager for the Offer?	The Joint Lead Managers are Morgan Stanley Australia Securities Limited and UBS AG, Australia Branch.

What is the minimum and maximum application size under the Retail Offer?	<p>The minimum application size for investors in the Broker Firm Offer and the Priority Offer is \$2,000 worth of Shares and in multiples of \$500 worth of Shares thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer or the Priority Offer.</p> <p>Under the Employee Gift Offer, Eligible Gift Employees who submit a valid Application will receive a guaranteed allocation of \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).</p> <p>Adore Beauty and SaleCo, along with the Joint Lead Managers, reserve the right to treat any Applications in the Broker Firm Offer that are from persons who they believe may be Institutional Investors, as bids in the Institutional Offer or to reject or scale back Applications. Adore Beauty and SaleCo, along with the Joint Lead Managers, also reserve the right to aggregate any Applications believed to be multiple applications from the same person.</p>
What is the allocation policy?	<p>The allocation of Shares between the Institutional Offer and Retail Offer (including the Broker Firm Offer, the Priority Offer and the Employee Gift Offer) was determined by agreement between the Company and the Joint Lead Managers, having regard to the allocation policy outlined in Sections 7.3.4, 7.4.4, 7.5.4 and 7.8.2 of this Prospectus.</p> <p>With respect to the Broker Firm Offer, it is a matter for the Brokers as to how they allocate Shares among their retail clients.</p> <p>The allocation of Shares under the Priority Offer and the Employee Gift Offer is at the absolute discretion of the Company, provided that the allocations do not exceed 883,694 Shares and 27,084 Shares, respectively.</p> <p>Except for Shares to be issued under the Employee Gift Offer in respect of valid Applications from Eligible Gift Employees, Adore Beauty, along with the Joint Lead Managers, have absolute discretion regarding the allocation of Shares to Applicants under the Offer and may reject an Application, or allocate fewer Shares than the number or equivalent dollar amount applied for, in our absolute discretion. Adore Beauty and SaleCo, in conjunction with the Joint Lead Managers, also reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person.</p> <p>All Eligible Gift Employees who apply correctly for Shares under the Employee Gift Offer are guaranteed the allocation of those Shares.</p>
When will I receive confirmation that my Application has been successful?	<p>It is expected that initial holding statements will be dispatched by standard post on or about Thursday, 29 October 2020.</p> <p>Refunds (without interest) to Applicants who make an Application and are scaled back (or otherwise receive Shares having a lesser value than the amount of Application Monies they have paid) will be made as soon as possible after Completion of the Offer.</p>
Will the Shares be quoted?	<p>Adore Beauty will apply within seven days of the Prospectus Date to the ASX for admission to the Official List and quotation of Shares on ASX (which is expected to be under the code "ABY").</p> <p>Completion is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>Adore Beauty will be required to comply with the ASX Listing Rules, subject to any waivers obtained by us from time to time.</p> <p>The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that Adore Beauty may be admitted to the Official List is not to be taken as an indication of the merits of Adore Beauty or the Shares offered for sale.</p>

Section 7. Details of the Offer

When are the Shares expected to commence trading?	<p>It is expected that trading of the Shares on the ASX will commence on or around Friday, 23 October 2020 on a deferred settlement basis.</p> <p>Shares are expected to commence trading on the ASX on a normal settlement basis on or around Tuesday, 27 October 2020.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk. Adore Beauty, SaleCo, their respective Directors and officers along with the Share Registry and the Joint Lead Managers disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their holding statement, whether on the basis of a confirmation of allocation provided by any of them or a Broker or from the Adore Beauty Offer Information Line.</p>
Are there any escrow arrangements?	Yes. Details are provided in Section 9.6.
Has any ASIC relief or ASX waiver been sought or obtained?	Yes. Details are provided in Section 9.10.
Are there any taxation considerations for Australian investors?	Yes. Refer to Section 9.11.
Are there any brokerage, commission or stamp duty considerations?	<p>No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.</p> <p>See Section 9.5 for details of various fees payable by Adore Beauty to the Joint Lead Managers and by the Joint Lead Managers to certain Brokers (on behalf of the Company).</p>
What should I do with any enquiries?	<p>All enquiries in relation to this Prospectus should be directed to the Adore Beauty Offer Information Line on 1800 628 703 (toll free within Australia) or +61 1800 628 703 (outside Australia) from 8:30am until 5:30pm (Melbourne time) Monday to Friday (excluding public holidays).</p> <p>All enquiries in relation to the Broker Firm Offer should be directed to your Broker.</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your stockbroker, solicitor, accountant, financial adviser or other independent professional adviser before deciding whether to invest.</p>

7.3. Broker Firm Offer

7.3.1. Who may apply

The Broker Firm Offer is open to persons who have received a firm allocation of Shares from their Broker and who have a registered address in Australia and are not located in the United States. If you have received an invitation to participate from your Broker, you will be treated as eligible to become a Broker Firm Offer Applicant under the Broker Firm Offer. You should contact your Broker to determine whether you can receive an allocation of Shares under the Broker Firm Offer.

7.3.2. How to apply

If you have received an allocation of Shares from your Broker and wish to apply for those Shares under the Broker Firm Offer, you should contact your Broker for information about how to submit your Broker Firm Offer Application Form and for payment instructions. Applicants under the Broker Firm Offer must not send their Application Forms or Application Monies to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker to request a Prospectus and Broker Firm Offer Application Form, or download a copy at <https://events.miraqle.com/adorebeauty-offer>. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5:00pm (Melbourne time) on the Closing Date for the Retail Offer (5:00pm (Melbourne time) on Wednesday, 21 October 2020) or any earlier closing date as determined by your Broker.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your firm allocation of Shares. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

The minimum Application under the Broker Firm Offer is A\$2,000 worth of Shares and in multiples of A\$500 worth of Shares thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. Adore Beauty, SaleCo and the Joint Lead Managers reserve the right to aggregate any Applications that they believe may be multiple Applications from the same person or reject or scale back any Applications in the Broker Firm Offer. Any amount applied for in excess of the amount allocated to you, will be refunded by your Broker in full (without interest). Adore Beauty and SaleCo may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer Application procedures or requirements, in their discretion in compliance with applicable laws.

Adore Beauty, SaleCo, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9:00am (Melbourne time) on Wednesday, 14 October 2020 and is expected to close at 5:00pm (Melbourne time) on Wednesday, 21 October 2020. Adore Beauty, SaleCo and the Joint Lead Managers may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier time and date, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

7.3.3. How to pay

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with instructions provided by that Broker.

7.3.4. Allocation policy

The allocation of Shares to the Broker Firm Offer, and the identity and level of participation of Brokers participating in the Broker Firm Offer, have been determined by agreement between the Joint Lead Managers, Adore Beauty and SaleCo. Shares that have been allocated to Brokers for allocation to their Australian resident clients will be issued or transferred to the Applicants nominated by those Brokers (subject to the right of Adore Beauty, SaleCo and the Joint Lead Managers to reject, aggregate or scale back Applications).

It will be a matter for each Broker as to how they allocate Shares among their retail clients, and they (and not Adore Beauty, SaleCo or the Joint Lead Managers) will be responsible for ensuring that retail clients who have received a firm allocation from them receive the relevant Shares. Applicants under the Broker Firm Offer should confirm their allocation through the Broker from whom they received their allocation. However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you obtained details of your holding from the Adore Beauty Offer Information Line or confirmed your allocation through a Broker.

Adore Beauty, SaleCo, their respective directors and officers, the Joint Lead Managers and the Share Registry disclaim all liability, whether in negligence or otherwise, if you sell Shares before receiving your holding statement, even if you obtained details of your holding from the Adore Beauty Offer Information Line or confirmed your firm allocation of Shares through a Broker.

Section 7. Details of the Offer

7.3.5. Acceptance of applications

An application under the Broker Firm Offer is an offer by you to the Company and SaleCo to apply for Shares in the dollar amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an application by an applicant may not be varied and is irrevocable.

An application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the applicant. Acceptance of an application will give rise to a binding contract on allocation of Shares to successful applicants conditional on Settlement and the quotation of Shares on the ASX on an unconditional basis.

The Company, SaleCo and the Joint Lead Managers reserve the right to reject any application which is not correctly completed or which is submitted by a person whom the Company believes is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by the applicant in completing their application.

The final allocation of Shares to applicants in the Broker Firm Offer will be at the Company's absolute discretion and the Company may reject an application, or allocate fewer Shares than the number or equivalent dollar amount applied for.

7.3.6. Application Monies

Application Monies received under the Broker Firm Offer will be held in a special purpose account until Shares are issued or transferred to successful applicants. Applicants under the Broker Firm Offer whose applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will be mailed (or otherwise in the Company's discretion provided with) a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by the Company.

7.4. Priority Offer

7.4.1. Who may apply

The Priority Offer is open to investors who have received an invitation to participate in the Priority Offer from Adore Beauty and who have a registered address in Australia and are not located in the United States. If you have been invited by Adore Beauty to participate in the Priority Offer, you will be treated as an Applicant under the Priority Offer in respect of those Shares that are allocated to you and you will receive a personalised invitation to apply for Shares in the Priority Offer.

7.4.2. How to apply

If you have received a personalised invitation to apply for Shares under the Priority Offer and you wish to apply for some or all of those Shares, you should follow the instructions on your personalised invitation.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications under the Priority Offer must be for a minimum of A\$2,000 worth of Shares and in multiples of A\$500 worth of Shares thereafter. There is no maximum number or value of Shares that may be applied for under the Priority Offer.

Applications must be received by the Share Registry on or before the closing date for the Retail Offer (5:00pm (Melbourne time) on Wednesday, 21 October 2020).

7.4.3. How to pay

Payment must be made in Australian dollars and via BPAY®, and must otherwise be made in accordance with the instructions provided on your personalised invitation. Application Monies must be received by the Share Registry by 5:00pm (Melbourne time) on Wednesday, 21 October 2020. It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5:00pm (Melbourne time) on Wednesday, 21 October 2020. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment, and you should therefore take this into consideration when making payment.

7.4.4. Allocation policy

The aggregate number of Shares offered under the Priority Offer will not exceed \$5,964,935 worth of Shares in aggregate. The allocation of Shares to Applicants under the Priority Offer will be made at the absolute discretion of Adore Beauty. Adore Beauty may reject an Application, or allocate a lesser dollar amount of Shares than the amount applied for, in its absolute discretion.

7.5. Employee Gift Offer

7.5.1. Who may apply

The Employee Gift Offer is open to Eligible Gift Employees, who are persons who have a registered address in Australia and are not located in the United States. Directors of the Company and participants in the LTI Offer are not eligible to participate in the Employee Gift Offer.

Eligible Gift Employees will receive a personalised invitation to apply for Shares under the Employee Gift Offer on the Prospectus Date. Eligible Gift Employees should read the invitation and this Prospectus carefully and in their entirety before deciding whether to apply for Shares under the Employee Gift Offer. If you are unclear in relation to any matter or are uncertain as to whether Shares are a suitable investment for you, you should seek professional guidance from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest.

7.5.2. How to apply

Eligible Gift Employees who wish to apply for Shares under the Employee Gift Offer must apply for Shares by submitting the Employee Gift Offer Application Form in accordance with the instructions on your personalised invitation. Eligible Gift Employees must comply with the instructions on their personalised invitation and the Application Form.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

Applications under the Employee Gift Offer must be received on or before the closing date of the Retail Offer (5:00pm (Melbourne time) on Wednesday, 21 October 2020).

The Employee Gift Offer may only be accepted in full.

7.5.3. How to pay

No payment for Shares is required under the Employee Gift Offer.

7.5.4. Allocation policy

Eligible Gift Employees who submit a valid Application will receive a guaranteed allocation of \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price).

Section 7. Details of the Offer

7.5.5. Restrictions on disposing of Shares

Eligible Gift Employees may not sell, transfer or otherwise dispose of any Shares acquired under the Employee Gift Offer for a minimum period of three years, unless the Eligible Gift Employee ceases to be employed by Adore Beauty or the dealing is required by law (in which case the Shares will be released).

Adore Beauty will implement necessary arrangements to give effect to this restriction. By applying for Shares under the Employee Gift Offer, Eligible Gift Employees will be agreeing to the imposition of any restriction, including a holding lock, on a sale, transfer or disposal of those Shares.

Once the restriction period ends or Shares are released, Eligible Gift Employees will, subject to the requirements of the Company's Securities Trading Policy, be free to deal with the Shares acquired under the Employee Gift Offer. Employee Gift Offer Shares are not subject to forfeiture.

7.6. Acceptance of Applications under the Retail Offer

An Application under the Retail Offer (which incorporates the Broker Firm Offer, the Priority Offer and the Employee Gift Offer) is an offer by you to Adore Beauty and SaleCo to apply for Shares in the dollar amount specified on the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an Application by an Applicant may not be varied and is irrevocable.

By making an Application, you declare that you were given access to this Prospectus, together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is attached to, or accompanied by, a paper copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

An Application may be accepted by Adore Beauty or SaleCo in respect of the full amount specified on the Application Form, or any amount lower than that, without further notice to the Applicant. Adore Beauty and SaleCo reserve the right to decline any Application (in whole or in part) if they believe any provisions or procedures in this Prospectus, the Application Form or other laws or regulations may not be complied with in relation to the Application, or for any other reason.

Adore Beauty, SaleCo and the Joint Lead Managers reserve the right to reject any Application which is not correctly completed or which is submitted by a person whom they believe is ineligible to participate in the Retail Offer, or to waive or correct any errors made by an Applicant in completing their Application. In addition, Adore Beauty, SaleCo and the Joint Lead Managers reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person or reject or scale back any Applications (or aggregation of Applications) which they believe may be from an Institutional Investor, or are for more than \$250,000 worth of Shares.

Successful Applicants in the Retail Offer will be issued Shares at the Offer Price. Acceptance of an Application will give rise to a binding contract, conditional on Settlement and quotation of Shares on the ASX.

7.7. Application monies

Application Monies received under the Retail Offer will be held in a special purpose account until Shares are issued to Successful Applicants. Applicants under the Retail Offer whose Applications are not accepted, or who are allocated a lesser dollar amount of Shares than the amount applied for, will receive a refund (without interest) of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Adore Beauty. You should ensure that sufficient funds are held in the relevant account(s) to cover the amount of your BPAY® payment or electronic funds transfer. If the amount of your BPAY® payment or electronic funds transfer is less than the amount specified on the Application Form, you may be taken to have applied for such lower dollar amount of Shares.

7.8. Institutional Offer

7.8.1. Invitations to bid

The Institutional Offer consisted of an invitation to certain institutional investors in Australia and a number of other eligible jurisdictions outside the United States to bid for an allocation of Shares at the Offer Price. The Joint Lead Managers separately advised Institutional Investors of the application procedures for the Institutional Offer.

7.8.2. Allocation policy under the Institutional Offer

The allocation of Shares among bidders in the Institutional Offer was determined by agreement between the Joint Lead Managers, Adore Beauty and SaleCo. Adore Beauty, the Joint Lead Managers and SaleCo had absolute discretion regarding the basis of allocation of Shares among Institutional Investors.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Joint Lead Managers.

The allocation policy was influenced, but not constrained, by the following factors:

- the number of Shares bid for by particular applicants;
- the timeliness of the bid by particular applicants;
- the Company's desire for an informed and active trading market following listing on the ASX;
- the Company's desire to establish a wide spread of institutional Shareholders;
- the overall level of demand under the Broker Firm Offer, Priority Offer and the Institutional Offer;
- the likelihood that particular bidders will be long term Shareholders; and
- any other factors that the Company, the Joint Lead Managers and SaleCo considered appropriate, in the Company's sole discretion.

7.9. Restrictions on distributions

No action has been taken to register or qualify this Prospectus, the Shares that are subject of the Offer, or otherwise to permit a public offering of the Shares, in any jurisdiction outside Australia.

The Offer does not constitute an offer or invitation in any jurisdiction in which, or to any person to whom, such an offer or invitation would be unlawful. This Prospectus may not be released or distributed in the United States, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. In particular, the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. securities laws.

Each Applicant under the Retail Offer, as well as each person to whom the Institutional Offer is made under this Prospectus, will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or resold in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and any other applicable U.S. securities laws;
- it is not in the United States or a U.S. Person;
- it has not sent and will not send the Prospectus or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of the Company and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;

Section 7. Details of the Offer

- acknowledged that, once the Company, the Share Registry or a Broker receives an Application Form (including electronically), it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised the Company and the Joint Lead Managers and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that, in some circumstances, the Company may not pay dividends, or that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation or particular needs (including financial and tax issues) of the Applicant(s);
- declared that the Applicant(s) is/are a resident of Australia (except as applicable to the Institutional Offer);
- acknowledged and agreed that the Offer may be withdrawn by the Company or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if Listing does not occur for any reason, the Offer will not proceed.

7.10. Discretion regarding the Offer

Adore Beauty and SaleCo may withdraw the Offer at any time before the issue or transfer of Shares to successful applicants under the Offer. If the Offer, or any part of it, does not proceed, all relevant Application Monies will be refunded (without interest).

Adore Beauty, SaleCo and the Joint Lead Managers also reserve the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications either generally or in particular cases, reject any application, or (subject to the terms of any guaranteed allocations referred to in this Prospectus) allocate a lesser number of Shares than that applied for.

7.11. ASX Listing, registers and holding statements, and deferred settlement trading

7.11.1. Application to the ASX for listing and quotation of Shares

Adore Beauty will apply to the ASX for admission to the Official List and quotation of Shares on the ASX within seven days of the Prospectus Date (which is expected to be under the code "ABY").

The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit Adore Beauty to the Official List is not to be taken as an indication of the merits of Adore Beauty or the Shares offered under this Prospectus.

If permission is not granted for the official quotation of the Shares on the ASX within three months after the Prospectus Date (or any later date permitted by law), the Offer will be withdrawn and all Application Monies received by Adore Beauty will be refunded (without interest) as soon as practicable in accordance with the requirements of the Corporations Act.

From the date of listing on the ASX, Adore Beauty will be required to comply with the ASX Listing Rules, subject to any waivers obtained by Adore Beauty from time to time (including those described in Section 9.10).

7.11.2. CHESS and issuer sponsored holdings

Adore Beauty will apply to participate in Clearing House Electronic Subregister System (**CHESS**) and must comply with the ASX Listing Rules and the ASX Settlement Operating Rules. CHESS is an electronic transfer and settlement system for transactions in securities quoted on the ASX under which transfers are affected in an electronic form.

When the Shares become approved financial products under the ASX Settlement Operating Rules, holdings will be registered in one of two sub-registers, being an electronic CHESS sub-register or an issuer sponsored sub-register. For all Successful Applicants, the Shares of a Shareholder who is a participant in CHESS or a Shareholder sponsored by a participant in CHESS will be registered on the CHESS sub-register. All other Shares will be registered on the issuer sponsored sub-register.

Following Completion, Shareholders will be sent a holding statement that sets out the number of Shares that have been allocated to them. This statement will also provide details of a Shareholder's Holder Identification Number (**HIN**) for CHESS holders or, where applicable, the Securityholder Reference Number (**SRN**) of issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their holding. Certificates will not be issued.

Shareholders will receive subsequent statements during the first week of the following month if there has been a change to their holding on the register and as otherwise required under the ASX Listing Rules and the Corporations Act. Additional statements may be requested at any other time either directly through the Shareholder's sponsoring broker in the case of a holding on the CHESS sub-register or through the Share Registry in the case of a holding on the issuer sponsored sub-register. Adore Beauty and the Share Registry may charge a fee for these additional issuer sponsored statements.

7.11.3. Conditional and deferred settlement trading and selling Shares on-market

It is expected that trading of the Shares on ASX, on a conditional and deferred basis, will commence on or about Friday, 23 October 2020.

Trades occurring on the ASX before Settlement will be conditional on Settlement occurring.

If the Offer is withdrawn before shares have commenced trading on an unconditional basis, all contracts for the sale of Shares on ASX will be cancelled and any Application Monies received will be refunded as soon as possible.

Conditional and deferred settlement trading will continue until the Company has advised the ASX that Settlement has occurred and that the Company and SaleCo have issued and transferred Shares to successful Applicants under the Offer, which is expected to be prior to market open on Tuesday, 27 October 2020. Unconditional and normal settlement trading is expected to commence on or about Tuesday, 27 October 2020.

If Settlement has not occurred within 14 days (or such longer period as the ASX allows) after the day Shares are first quoted on the ASX, the Offer and all contracts arising on acceptance of the Offer will be cancelled and of no further effect and all Application Monies will be refunded (without interest). In these circumstances, all purchases and sales made through the ASX participating organisations during the conditional trading period will be cancelled and of no effect.

It is the responsibility of each person who trades in Shares to confirm their holding before trading in Shares. If Shares are sold before receiving a holding statement, Successful Applicants do so at their own risk. The Company, SaleCo, the Share Registry, the Joint Lead Managers, the Co-Lead Manager and Co Managers disclaim all liability, whether in negligence or otherwise, if a Shareholder sells Shares before receiving a holding statement, even if the Shareholder obtained details of their holding from the Adore Beauty Offer Information Line or confirmed their firm allocation through a Broker.

Shares are expected to commence trading on the ASX on a normal settlement basis on Tuesday, 27 October 2020.

7.12. Summary of rights and liabilities attaching to Shares and other material provisions of the Constitution

The rights and liabilities attaching to ownership of Shares are:

- detailed in the Constitution which may be inspected during normal business hours at the registered office of the Company; and
- in certain circumstances, regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Operating Rules and all other applicable laws and regulations.

A summary of the significant rights, liabilities and obligations attaching to Shares and a description of other material provisions of the Constitution is set out below. This summary is not exhaustive nor does it constitute a definitive statement of the rights and liabilities of Shareholders. The summary assumes that Adore Beauty is admitted to the Official List.

Section 7. Details of the Offer

7.12.1. Voting at a general meeting

At a general meeting of Adore Beauty, every Shareholder present in person or by proxy, attorney or representative has one vote on a show of hands; and, on a poll, one vote for each Share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid Share held and in respect of each partly paid Share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid Share bears to the total amounts paid and payable (excluding amounts credited) on that Share. Amounts paid in advance of a call are ignored when calculating the proportion. The Chairperson does not have a casting vote.

7.12.2. Meetings of members

Every Shareholder is entitled to receive notice of and, except in certain circumstances, attend and vote at general meetings of Adore Beauty and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act and ASX Listing Rules. At least 28 days' notice of a meeting must be given to Shareholders.

7.12.3. Dividends

Subject to the Corporations Act, the Constitution and any special terms and conditions of issue, the Directors may, from time to time, pay, resolve to pay, rescind or amend a decision to pay a dividend or declare any interim, special or final dividend as, in their judgement, the financial position of the Company justifies.

The Directors may fix the amount, time and method of payment of the dividends. The payment, resolution to pay, or declaration of a dividend does not require any confirmation by a general meeting.

7.12.4. Transfer of Shares

Subject to the Constitution and to any restrictions attached to any Share or classes of shares, Shares may be transferred by proper ASTC transfer (effected in accordance with the ASX Settlement Operating Rules, Corporations Regulations and ASX Listing Rules) or by a written transfer in any usual form or in any other form approved by the Board and permitted by the Corporations Act and ASX Listing Rules. The Directors may, in circumstances permitted under the ASX Listing Rules or ASX Settlement Rules, decline to register a transfer of Shares or apply a holding lock to prevent a transfer of Shares. If the Directors decline to register a transfer, the Company must give the party lodging the transfer written notice of the refusal and the reason for refusal.

7.12.5. Issue of further Shares

Subject to the Constitution, the ASX Listing Rules, the ASX Settlement Operating Rules and any special rights conferred on the holders of any shares or class of shares, the Directors may issue shares, reclassify or convert shares, cancel or otherwise dispose of shares, or grant options over unissued shares to any person and they may do so at such times and on the conditions they think fit. The shares may be issued with preferred, deferred or special rights, or special restrictions about dividends, voting, return of capital, participation in the property of the Company on a winding up or otherwise as the Directors see fit.

7.12.6. Preference shares

Adore Beauty may issue preference shares, including preference shares which are, or at the option of Adore Beauty or a holder are, liable to be redeemed or converted into Shares. The rights attaching to preference shares are those set out in the Constitution.

7.12.7. Winding up

If the Company is wound up, then subject to the Constitution and to the rights or restrictions attached to a class of shares, any surplus assets must be divided among the Company's members in proportion to the shares held by them (irrespective of the amounts paid or credited as paid on the shares), less any amounts which remain unpaid on these shares at the time of distribution.

7.12.8. Sale of Non-marketable parcels

In accordance with the Corporations Act, the ASX Listing Rules and the ASX Settlement Operating Rules, and provided that the procedures set out in the Constitution are followed, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of those Shares. A marketable parcel of Shares is defined in the ASX Listing Rules and is generally a holding of Shares with a market value of at least A\$500.

7.12.9. Proportional takeover provisions

The Constitution contains provisions requiring Shareholder approval in relation to any proportional takeover bid. These provisions will cease to apply unless renewed by Shareholders passing a special resolution by the third anniversary of either the date those provisions were adopted or the date those rules were last renewed.

7.12.10. Variation of class rights

Subject to the Corporations Act and the terms of issue of a class of Shares, wherever the capital of the Company is divided into different classes of shares, the rights attached to any class of shares may be varied with:

- the written consent of the holders of at least three quarters of the issued shares in the particular class; or
- the sanction of a special resolution passed at a separate meeting of the holders of shares in that class.

7.12.11. Dividend reinvestment plan

The Constitution contains a provision allowing Directors, on the terms and conditions they think fit, to implement, amend, suspend or terminate a dividend reinvestment plan (under which any Shareholder or any class of shareholders may elect that the dividends payable by the Company be reinvested by a subscription for Shares in the Company).

7.12.12. Directors – appointment and retirement

Under the Constitution, the number of Directors shall be a minimum of three Directors and a maximum of 12 Directors or such lower number as the Directors determine, provided Adore Beauty resolves to authorise such determination at a general meeting. Directors are elected or re-elected by resolution by shareholders at general meetings of Adore Beauty.

The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who (other than the managing director) will then hold office until the next annual general meeting of the Company and is then eligible for election at that meeting.

No Director (other than the managing director) may hold office without re-election after three years or beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected (whichever is later).

7.12.13. Directors – voting

Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter.

In the case of an equality of votes on a resolution, the chair of the meeting does not have a second or casting vote and the proposed resolution is taken as having been lost.

A written resolution of the Board may be passed without holding a meeting of the Board, if all of the Directors sign or assent to the resolution (other than Directors permitted not to vote on the resolution in accordance with the terms of the Constitution).

7.12.14. Powers and duties of Directors

The Directors are responsible for managing the business of Adore Beauty and may exercise to the exclusion of Adore Beauty in general meeting all the powers of Adore Beauty which are not required by law or by the Constitution to be exercised by Adore Beauty in general meeting.

Section 7. Details of the Offer**7.12.15. Directors' and officers' indemnity**

The Company, to the extent permitted by law, indemnifies each person who is a current or former Director, executive officer, officer or auditor of the Company, and such other officers or former officers of the Company or its related bodies corporate as the Directors in each case determine, against any losses or liability incurred by that person as an officer or auditor of the Company or of a related body corporate of the Company including, but not limited to, a liability for negligence or for legal costs.

The Company, to the extent permitted by law, may enter into and pay premiums on a contract insuring any person who is a current or former Director, executive officer, officer or auditor of the Company, and such other officers or former officers of the Company or its as the Directors in each case determine, against any liability incurred by the person as an officer or auditor of the Company or of a related bodies corporate of the Company including, but not limited to, a liability for negligence or for legal costs.

The Company has entered into deeds of access, insurance and indemnity with each Director. These are summarised in Section 6.4.1.2.

7.12.16. Amendment

The Constitution may be only amended in accordance with the Corporations Act, which requires a special resolution passed by at least 75% of Shareholders present (in person or by proxy, attorney or representative) and entitled to vote on the resolution at a general meeting of Adore Beauty. The Company must give at least 28 days' written notice of its intention to propose a resolution as a special resolution.

7.13. Escrow arrangements

Upon Completion of the Offer, Kate Morris, James Height, Quadrant Growth Fund, Tennealle O'Shannessy, Stephanie Carroll, HAJA Holdings Pty Limited, Dan Ferguson, Sarah Mullen and Gareth Williams will be subject to voluntary escrow arrangements (other than any Shares acquired by them, or entities related to them, under the Offer at the Offer Price). The Escrowed Shareholders have entered into voluntary escrow arrangements which prevent them from disposing of their Escrowed Shares during the relevant Escrow Period (subject to relevant exceptions). See Section 9.6 for details on escrow arrangements.

Section 8.

Independent Limited Assurance Report



Section 8. Independent Limited Assurance Report



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Board of Directors

Adore Beauty Group Limited
421 High Street, Northcote
Victoria 3070

Board of Directors

Adore Beauty SaleCo Limited
421 High Street, Northcote
Victoria 3070

7 October 2020

Dear Directors,

Collins Square, Tower 5
727 Collins Street
Docklands Victoria 3008

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

INDEPENDENT LIMITED ASSURANCE REPORT AND FINANCIAL SERVICES GUIDE

Introduction

Grant Thornton Corporate Finance Pty Limited ("Grant Thornton Corporate Finance") has been engaged by Adore Beauty Group Limited and its controlled entities ("Adore Beauty" or "the Group") and Adore Beauty SaleCo Limited ("SaleCo") to prepare this report for inclusion in the prospectus to be issued by the Company on or about 7 October 2020 (the "Prospectus"), in respect of the initial public offering of fully paid ordinary shares in the Group ("the Offer") and admission to the Australian Securities Exchange.

Grant Thornton Corporate Finance holds an appropriate Australian Financial Services Licence (AFS Licence Number 247140) under the Corporations Act 2001 for the issue of this report. This report is both an Independent Limited Assurance Report, the scope of which is set out below, and a Financial Services Guide, as attached at **Appendix A**.

Expressions defined in the Prospectus have the same meaning in this report, unless otherwise specified.

ABN-59 003 265 987 ACN-003 265 987 AFSL-247140

Grant Thornton Corporate Finance Pty Ltd ABN 59 003 265 987 ACN 003 265 987 (holder of Australian Financial Services Licence No. 247140), a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127556 389. 'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

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Scope

Grant Thornton Corporate Finance has been engaged by the Directors to perform a limited assurance engagement in relation to the following statutory historical, pro forma historical and forecast financial information of Adore Beauty included in Section 4 of the Prospectus:

Statutory Historical Financial Information

- The historical statement of profit or loss and other comprehensive income for the years ended 30 June 2018 ("FY18") and 30 June 2019 ("FY19") for Adore Beauty Pty Ltd and the consolidated historical statement of profit and loss and other comprehensive income for the year ended 30 June 2020 ("FY20") and the 6 months ended 31 December 2019 ("1H FY20") for the Group included in Section 4.4 of the Prospectus;
- The historical statement of cash flows for the years ended 30 June 2018 ("FY18") and 30 June 2019 ("FY19") for Adore Beauty Pty Ltd and the consolidated historical statement of cash flows for the year ended 30 June 2020 ("FY20") and the 6 months ended 31 December 2019 ("1H FY20") for the Group included in Section 4.6 of the Prospectus; and
- The consolidated historical statement of financial position as at 30 June 2020 included in Section 4.5 of the Prospectus.

(together the "Statutory Historical Financial Information")

Pro Forma Consolidated Historical Financial Information

- The pro forma consolidated historical statements of profit or loss and other comprehensive income for the years ended 30 June 2018 ("FY18"), 30 June 2019 ("FY19"), 30 June 2020 ("FY20"), 6 months ended 31 December 2019 ("1H FY20") and 12 months ended 31 December 2019 ("CY19") which are included in Section 4.4 of the Prospectus together with a reconciliation to the Statutory Historical Financial Information (where applicable) which is included in Section 4.4 of the Prospectus;
- The pro forma historical statements of cash flow for FY18, FY19, FY20, 1H FY20 and CY19 which are included in Section 4.6 of the Prospectus together with a reconciliation to the Statutory Historical Financial Information (where applicable) which is included in Section 4.6 of the Prospectus; and
- The pro forma historical statement of financial position as at 30 June 2020, which assumes completion of the transactions outlined in Section 4.5 of the Prospectus as though they had occurred on that date.

(together the "Pro Forma Consolidated Historical Financial Information").

The Pro Forma Consolidated Historical Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to the general purpose financial reports prepared in accordance with the Corporations Act 2001 (Cth).

The Pro Forma Consolidated Historical Financial Information has been prepared for inclusion in the Prospectus and has been derived from the audited financial statements of Adore Beauty Pty Ltd for FY19 in respect of FY19 and FY18, with FY20 derived from the audited financial statements of the Group. The FY18 pro forma financial information has been derived from the comparative financial information included in the FY19 audited financial statements of Adore Beauty Pty Ltd, as the FY19 audited financial statements were prepared on a general purpose basis. The financial statements for FY18 were audited by LDB Audit Services Pty Ltd and the financial statements for FY19 and FY20 were audited by Grant Thornton Audit Pty Ltd. The audit opinions issued to the Directors of Adore Beauty Pty Ltd in respect of FY18 and FY19 and the Group in respect of FY20 were unmodified; however, the audit opinion for FY18 included an Emphasis of Matter paragraph in relation to the basis of accounting, as the financial report was prepared on a special purposes basis of fulfilling the directors' reporting responsibilities under the *Corporations Act 2001*.

Section 8. Independent Limited Assurance Report



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As described in Section 4.2 of the Prospectus the stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Company's adopted accounting policies.

The Pro Forma Consolidated Historical Financial Information has been derived from the Statutory Historical Financial Information after adjusting for the effects of the pro forma adjustments described in Section 4.2 of the Prospectus (the "Pro Forma Adjustments"). The stated basis of preparation is the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies applied to the Pro Forma Adjustments as if those events or transactions had occurred as at the date of the Statutory Historical Financial Information. Due to its nature, the Pro Forma Consolidated Historical Financial Information does not represent the Company's actual or prospective financial position, financial performance, or cash flows.

Statutory Consolidated Forecast Financial Information

- The statutory consolidated forecast statement of profit or loss and other comprehensive income for the 6 months ending 31 December 2020 ("1HFY21F") which is included in Section 4.4 of the Prospectus; and
- The statutory consolidated forecast statement of cash flows for the 6 months ending 31 December 2020 ("1HFY21F") which is included in Section 4.6 of the Prospectus;

(together the "Statutory Consolidated Forecast Financial Information").

Pro Forma Consolidated Forecast Financial Information

- The pro forma consolidated forecast statement of profit or loss and other comprehensive income for the 6 months ending 31 December 2020 ("1HFY21") and 12 months ending 31 December 2020 ("CY20") which is included in Section 4.4 of the Prospectus; and
- The pro forma consolidated forecast statement of cash flows for the 6 months ending 31 December 2020 ("1HFY21F") and 12 months ending 31 December 2020 ("CY20") which is included in Section 4.6 of the Prospectus;

(together the "Pro Forma Consolidated Forecast Financial Information").

The Statutory Consolidated Forecast Financial Information and the Pro Forma Consolidated Forecast Financial Information together form the "Forecast Financial Information".

The Directors' best estimate assumptions underlying the Forecast Financial Information are described in Section 4.8 of the Prospectus. The stated basis of preparation used in the preparation of the Forecast Financial Information is the recognition and measurement principles contained in Australian Accounting Standards and the Group's adopted accounting policies.

The Forecast Financial Information has been prepared by management and adopted by the Directors in order to provide prospective investors with a guide to the potential financial performance of the Group for 1HFY21F and CY20. There is a considerable degree of subjective judgement involved in preparing forecasts since they relate to events and transactions that have not yet occurred and may not occur. Actual results are likely to be different from the Forecast Financial Information since anticipated events or transactions frequently do not occur as expected and the variations may be material.


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The Directors' best estimate assumptions on which the Forecast Financial Information is based relate to future events and/or transactions that management expect to occur and actions that management expect to take, and are also subject to uncertainties and contingencies, which are often outside the control of the Group. Evidence may be available to support the assumptions on which the Forecast Financial Information is based, however such evidence is generally future orientated and therefore speculative in nature. We are therefore not in a position to express a reasonable assurance conclusion on those best estimate assumptions, and accordingly, provide a lesser level of assurance on the reasonableness of the Directors' best estimate assumptions. We do not express any opinion on the achievability of the results. The limited assurance conclusion expressed in this report has been formed on the above basis.

Prospective investors should be aware of the material risks and uncertainties relating to an investment in the Group, which are detailed in Section 5 of the Prospectus, and the inherent uncertainty relating to the prospective financial information. Accordingly prospective investors should have regard to the investment risks and sensitivities set out in Section 4.10 of the Prospectus. The sensitivity analysis set out in Section 4.10 of the Prospectus demonstrates the impacts on the Forecast Financial Information of changes in key assumptions. The Forecast Financial Information is therefore only indicative of the financial performance, which may be achievable. We express no opinion as to whether the Forecast Financial Information will be achieved.

Directors' Responsibility

The Directors are responsible for:

- the preparation and presentation of the Pro Forma Consolidated Historical Financial Information, including the selection and determination of the pro forma adjustments and/or adjustments made to the Statutory Historical Financial Information and included in the Pro Forma Consolidated Historical Financial Information;
- the preparation of the Forecast Financial Information, including the best estimate assumptions underlying the Forecast Financial Information and the selection and determination of the pro forma adjustments made to the Statutory Consolidated Forecast Financial;
- Information and included in the Pro Forma Consolidated Forecast Financial Information; and
- the information contained within the Prospectus.

This responsibility includes for the operation of such internal controls as the Directors determine are necessary to enable the preparation of the Statutory Historical Financial Information, Pro Forma Consolidated Historical Financial Information and the Forecast Financial Information that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Statutory Historical Financial Information, Pro Forma Consolidated Historical Financial Information, the Statutory Consolidated Forecast Financial Information and the Pro Forma Consolidated Forecast Financial Information, based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with the Australian Standard on Assurance Engagements (ASAE) 3450: *"Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information"*.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we will not express an audit opinion.

Section 8. Independent Limited Assurance Report



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Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the financial information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

Statutory Historical Financial Information and Pro Forma Consolidated Historical Financial Information

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Statutory Historical Financial Information from the audited financial statements of Adore Beauty Pty Ltd for the years FY18 and FY19, and from the audited financial statements of the Group for FY20;
- consideration of the appropriateness of the pro forma adjustments described in Section 4.2 of the Prospectus;
- enquiry of the Directors, management and others in relation to the Statutory Historical Financial Information and the Pro Forma Consolidated Historical Financial Information;
- analytical procedures applied to the Statutory Historical Financial Information and Pro Forma Consolidated Historical Financial Information;
- a review of accounting records and other documents of the Group and its auditors; and
- a review of the consistency of the application of the stated basis of preparation and adopted accounting policies as described in the Prospectus used in the preparation of the Statutory Historical Financial Information and Pro Forma Consolidated Historical Financial Information.

Forecast Financial Information

- enquiries, including discussions with management and Directors of the factors considered in determining the assumptions used in the preparation of the Forecast Financial Information;
- analytical and other review procedures we considered necessary including examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Forecast Financial Information;
- review of the accounting policies adopted and used in the preparation of the Forecast Financial Information; and
- consideration of the pro forma adjustments applied to the Statutory Forecast Financial Information in preparing the Pro Forma Forecast Financial Information.

Our limited assurance engagement has not been carried out in accordance with auditing or other standards and practices generally accepted in any jurisdiction outside of Australia and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

We have assumed, and relied on representations from certain members of management of the Group, that all material information concerning the prospects and proposed operations of the Group has been disclosed to us and that the information provided to us for the purpose of our work is true, complete and accurate in all respects. We have no reason to believe that those representations are false.



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Conclusion

Statutory Historical Financial Information and Pro Forma Consolidated Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Statutory Historical Financial Information and Pro Forma Consolidated Historical Financial Information is not presented fairly, in all material respects, in accordance with the stated basis of preparation and the pro forma adjustments as described in Section 4.2 of the Prospectus.

Statutory Consolidated Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- i. the Directors' best estimate assumptions used in the preparation of the Statutory Consolidated Forecast Financial Information do not provide reasonable grounds for the Statutory Consolidated Forecast Financial Information;
- ii. in all material respects, the Statutory Consolidated Forecast Financial Information:
 - a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.8 of the Prospectus;
 - b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Company and the recognition and measurement principles in conformity with Australian Accounting Standards; and
- iii. the Statutory Consolidated Forecast Financial Information itself is unreasonable.

Pro Forma Consolidated Forecast Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- i. the Directors' best estimate assumptions used in the preparation of the Pro Forma Consolidated Forecast Financial Information do not provide reasonable grounds for the Pro Forma Consolidated Forecast Financial Information;
- ii. in all material respects, the Pro Forma Consolidated Forecast Financial Information:
 - a. is not prepared on the basis of the Directors' best estimate assumptions as described in Section 4.8 of the Prospectus;
 - b. is not presented fairly in accordance with the stated basis of preparation, being the accounting policies adopted and used by the Group and the recognition and measurement principles in conformity with Australian Accounting Standards, applied to the Statutory Consolidated Forecast Financial Information and the Pro Forma Adjustments as if those adjustments had occurred prior to 1 July 2020; and
- iii. the Pro Forma Consolidated Forecast Financial Information itself is unreasonable.

Restrictions on Use

Without modifying our conclusion, we draw attention to Section 4 of the Prospectus, which describes the purpose of the Financial Information, being for inclusion in the Prospectus. As a result, this Investigating Accountant's Report may not be suitable for use for another purpose.

Consent

Grant Thornton Corporate Finance consents to the inclusion of this Independent Limited Assurance Report in the Prospectus in the form and context in which it is included.

Liability

The liability of Grant Thornton Corporate Finance is limited to the inclusion of this report in the Prospectus. Grant Thornton Corporate Finance makes no representation regarding, and has no liability for, any other statements or other material in, or omissions from the Prospectus.

Section 8. Independent Limited Assurance Report**Grant Thornton**

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Independence or Disclosure of Interest

Grant Thornton Corporate Finance does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Corporate Finance will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully

GRANT THORNTON CORPORATE FINANCE PTY LTD

A handwritten signature in black ink, appearing to read 'Peter Thornely'.

Peter Thornely
Partner



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Appendix A (Financial Services Guide)

This Financial Services Guide is dated 7 October 2020.

1 About us

Grant Thornton Corporate Finance Pty Ltd (ABN 59 003 265 987, Australian Financial Services Licence no 247140) (Grant Thornton Corporate Finance) has been engaged by Adore Beauty Group Limited and its controlled entities ("Adore Beauty" or "the Group") and Adore Beauty SaleCo Limited ("SaleCo") to provide a report in the form of an Independent Limited Assurance for inclusion in a Prospectus dated on or about 7 October 2020 ("the Prospectus") in respect of the initial public offering of fully paid ordinary shares in the Company ("the Offer") and admission to the Australian Securities Exchange. You have not engaged us directly but have been provided with a copy of the report as a retail client because of your connection to the matters set out in the report.

2 This Financial Services Guide

This Financial Services Guide (FSG) is designed to assist retail clients in their use of any general financial product advice contained in the report. This FSG contains information about Grant Thornton Corporate Finance generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the report, and how complaints against us will be dealt with.

3 Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities and superannuation products and deal in a financial product by applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of securities and superannuation products.

4 General financial product advice

The report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

5 Fees, commissions and other benefits we may receive

Grant Thornton Corporate Finance charges fees to produce reports, including the report. These fees are negotiated and agreed with the entity which engages Grant Thornton Corporate Finance to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this report, Grant

Section 8. Independent Limited Assurance Report



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Thornton Corporate Finance will receive from the Company a fee of \$240,000 plus GST, which is based on commercial rates plus reimbursement of out-of-pocket expenses.

Partners, Directors, employees or associates of Grant Thornton Corporate Finance, or its related bodies corporate, may receive dividends, salary or wages from Grant Thornton Australia Ltd.

None of those persons or entities receive non-monetary benefits in respect of, or that is attributable to, the provision of the services described in this FSG.

6 Referrals

Grant Thornton Corporate Finance - including its Partners, Directors, employees, associates and related bodies corporate - does not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licenced to provide.

7 Associations with issuers of financial products

Grant Thornton Corporate Finance and its Partners, Directors, employees or associates and related bodies corporate may from time to time have associations or relationships with the issuers of financial products. For example, Grant Thornton Australia Ltd may be the auditor of, or provide financial services to the issuer of a financial product and Grant Thornton Corporate Finance may provide financial services to the issuer of a financial product in the ordinary course of its business.

In the context of the report, Grant Thornton Corporate Finance considers that there are no such associations or relationships which influence in any way the services described in this FSG.

8 Independence

Grant Thornton Corporate Finance is required to be independent of Adore Beauty in order to provide this report. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with the Company (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the initial public offering."

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome of the initial public offering, other than the preparation of this report.

Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this report. This fee is not contingent on the outcome of the initial public offering.

Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report."

9 Complaints

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Complaints Authority (AFCA) (membership no. 11800). All complaints must be in writing and addressed to the Head of Corporate Finance at Grant Thornton



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Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to AFCA who can be contacted at:

Australian Financial Complaints Authority

GPO Box 3

Melbourne, VIC 3001

Telephone: 1800 367 287

Email: info@afca.org.au

Grant Thornton Corporate Finance is only responsible for the report and FSG. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

10 Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

11 Contact Details

Grant Thornton Corporate Finance can be contacted by sending a letter to the following address:

Head of Corporate Finance

Grant Thornton Corporate Finance Pty Ltd

Level 17, 383 Kent Street

Sydney, NSW, 2000

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Section 9.

Additional Information



9.1. Registration

Adore Beauty was incorporated in New South Wales on 11 September 2019 as a private company limited by shares and was converted to a public company limited by shares on 11 September 2020. The Company changed its name to Adore Beauty Group Limited on 11 September 2020.

SaleCo was incorporated in New South Wales on 25 August 2020.

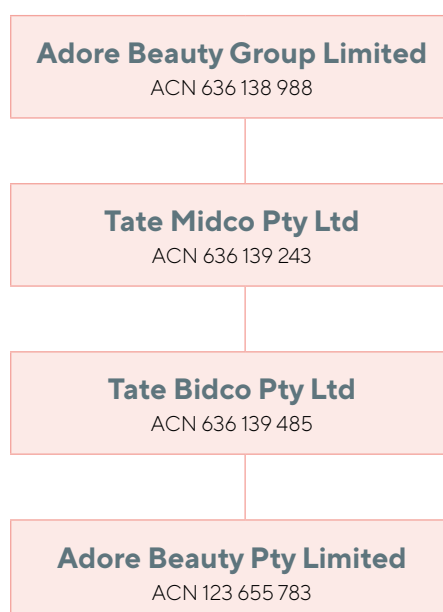
9.2. Company tax status and financial year

The Company will be subject to tax at the Australian corporate tax rate.

The Company's financial year for taxation purposes ends on 30 June.

9.3. Corporate structure

The following diagram shows the corporate structure of the Group Companies following Completion of the Offer.



9.4. Sale of Shares by SaleCo

SaleCo, a special purpose vehicle, has been established to facilitate the sale of Existing Shares by the Selling Shareholders.

Each of the Selling Shareholders has entered into a deed poll in favour of SaleCo under which the relevant Selling Shareholder has agreed to sell to SaleCo some or all of their Existing Shares, which will be sold by SaleCo into the Offer, free from encumbrances and third party rights.

The Existing Shares which SaleCo acquires from the Selling Shareholders will be transferred to Successful Applicants at the Offer Price. The price payable by SaleCo for these Existing Shares is the Offer Price. The Company will also issue Shares to Successful Applicants under the Offer.

SaleCo has no material assets, liabilities or operations other than its interests in and obligations under the Underwriting Agreement and the deeds described above. The shareholders of SaleCo are Kate Morris, James Height and Justin Ryan, who are also directors of the Company. Kate Morris, James Height and Justin Ryan are the directors of SaleCo.

The Company has agreed to provide such resources and support as are necessary to enable SaleCo to discharge its functions in relation to the Offer and has indemnified SaleCo in respect of costs of the Offer. The Company has indemnified SaleCo and the shareholders and officers of SaleCo for any loss which they may incur as a consequence of the Offer.

Section 9. Additional Information

9.5. Material Contracts

9.5.1. Underwriting Agreement

The Offer (excluding the Employee Gift Offer) is fully underwritten by the Joint Lead Managers pursuant to an underwriting agreement dated on or about the date of the Prospectus between the Joint Lead Managers, the Company and SaleCo (**Underwriting Agreement**). Under the Underwriting Agreement, the Joint Lead Managers have agreed to arrange, manage and underwrite the Offer.

Fees and expenses

The Company and SaleCo must pay to the Joint Lead Managers in accordance with the Underwriting Agreement a base fee equal to 2.2% of the total Offer proceeds and a management and selling fee equal to 0.55% of the Offer proceeds. The Company may, in its absolute discretion, pay to one or both of the Joint Lead Managers an incentive fee of 0.5% of the total Offer proceeds.

In addition to the fees described above, the Company and SaleCo have agreed to reimburse the Joint Lead Managers for certain agreed costs and expenses incurred by the Joint Lead Managers in relation to the Offer.

The Joint Lead Managers must pay, on behalf of the Company and in their respective proportions (as set out in the Underwriting Agreement), any fees, commissions or rebates due to any co-lead managers, co-managers or Brokers appointed by the Joint Lead Managers. The Co-Lead Manager and Co-Managers will receive fees on the following basis:

- a fee based on the value of each of their final broker allocations under the Offer (**Broker Firm Allocation**) calculated as (1.5% x Broker Firm Allocation), payable to the Co-Lead Manager and each of the Co-Managers; and
- a A\$500,000 base fee payable to the Co-Lead Manager only.

Termination events not subject to materiality

A Joint Lead Manager may, at any time after the date of the Underwriting Agreement until 4.00pm on the Completion date, terminate the Underwriting Agreement without cost or liability by notice to the Company and SaleCo and the other Joint Lead Manager if any of the following events occur:

- a statement in any of the Offer documents is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer document;
- there occurs a new circumstance that arises after this Prospectus is lodged that would have been required to be included in this Prospectus if it had arisen before lodgement and is in the opinion of that Joint Lead Manager, materially adverse from the point of view of an investor;
- the Company or SaleCo are, in the reasonable opinion of the Joint Lead Managers required under sections 719 or 728 to lodge a supplementary prospectus, and fail to lodge a supplementary prospectus with ASIC within the time period reasonably required by the Joint Lead Managers or the Company or SaleCo lodge a supplementary prospectus in a form and substance that has not been approved by the Joint Lead Managers in accordance with the Underwriting Agreement;
- at any time the S&P/ASX 200 Index falls to a level that is 87.5% or less of the level as at the close of trading on the last trading day before the date of the close of the bookbuild and is below that level at the close of trading:
 - for 3 consecutive Business Days during any time after the date of the agreement; or
 - on the Business Day immediately prior to the Settlement Date;
- any escrow deed entered into by an Escrow Shareholder is withdrawn, varied, terminated, rescinded, altered, amended or breached or failed to be complied with;
- the Sale Deed Poll is withdrawn, varied, terminated, rescinded, altered or amended, breached or failed to be complied with;
- the Company, SaleCo or any of their respective directors or officers (as those terms are defined in the Corporations Act) engage, or have engaged, in any fraudulent conduct or activity whether or not in connection with the Offer;
- approval (or approval subject to customary conditions) is refused or not granted the Company's admission to the Official List or to quotation of all the Shares within the specified timeframe, or the ASX withdraws, qualifies (other than by customary conditions) or withholds such approval;
- any of the following notifications are made in respect of the Offer:
 - ASIC gives notice of an intention to hold a hearing under section 739(2) or ASIC issues an order (including an interim order) under sections 739 or 1324B of the Corporations Act and that order becomes public or is not withdrawn within 2 Business Days of when it was made, or if it is made within 2 Business Days of the Settlement Date, it has not been withdrawn by the Settlement Date;

- an application is made by ASIC for an order under Part 9.5 in relation to the Offer or an Offer document and that application becomes public or is not withdrawn within 2 Business Days of when it was made, or if it is made within 2 Business Days of the Settlement Date, it has not been withdrawn by the Settlement Date; or
- ASIC commences any investigation or hearing under Part 3 of the *Australian Securities and Investments Commission Act 2001* (Cth) (**ASIC Act**) in relation to the Offer or an Offer document and that investigation or hearing becomes public or is not withdrawn within 2 Business Days of when it was made, or if it is made within 2 Business Days of the Settlement Date, it has not been withdrawn by the Settlement Date;
- any person (other than a Joint Lead Manager) who has previously consented to the inclusion of its name in any Offer document withdraws that consent, or any person (other than a Joint Lead Manager) gives a notice under section 730 of the Corporations Act in relation to this Prospectus;
- the Company or SaleCo does not provide a closing certificate as and when required by the Underwriting Agreement;
- if any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the material contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the Joint Lead Managers) or if all or any part of any of those contracts:
 - is terminated, withdrawn, rescinded, avoided or repudiated;
 - ceases to have effect, otherwise than in accordance with its terms; or
 - is or becomes void, voidable, illegal, invalid or unenforceable (other than by reason only of a party waiving any of its rights) or capable of being terminated, withdrawn, rescinded, avoided, repudiated or of limited force and affect, or its performance is or becomes illegal;
- the Company or SaleCo withdraws an Offer document or the Offer or indicates that it does not intend to proceed with the Offer or any part of the Offer;
- any Group Company becomes Insolvent, or there is an act or omission which is likely to result in a Group Company becoming Insolvent;
- an event specified in the timetable up to and including the Settlement Date is delayed by more than 2 Business Days (other than a delay agreed to between the parties, or required as a result of ASIC extending the period under section 727(3) of the Corporations Act);
- the Company is prevented from allotting and issuing (as applicable) the Offer Shares, or SaleCo is prevented from transferring the Sale Shares, within the time required by the timetable, the Offer documents, the Listing Rules, by applicable laws, an order of a court of competent jurisdiction or a government agency;
- the Company:
 - alters the issued capital of the Company or a Group Company; or
 - disposes or attempts to dispose of a substantial part of the business or property of the Company or a Group Company (except as required to give effect to the capital structure disclosed in the pathfinder version of this Prospectus and this Prospectus),
 without the prior written consent of the Joint Lead Managers;
- if a regulatory body withdraws or revokes; or amends, any regulatory approvals required for the Company or SaleCo to perform their obligations under this agreement or to carry out the transactions contemplated by the Offer documents;
- there is an event or occurrence, including any statute, order, rule, regulation, directive or request (including one compliance with which is in accordance with the general practice of persons to whom the directive or request is addressed) of any government agency which makes it illegal for a Joint Lead Manager to satisfy an obligation under this document, or to market, promote or settle the Offer;
- any of the CEO, the Chair of the Company, any director, Kate Morris or James Height vacate their office or there is any change in the persons holding the offices that they hold on the date of this agreement;
- any of the following occur:
 - a director or proposed director named in the pathfinder version of this Prospectus or this Prospectus of the Company or SaleCo is charged with an indictable offence relating to any financial or corporate matter;
 - any government agency commences any public action against the Company or SaleCo or any of their respective directors in their capacity as a director of the Company or SaleCo (as applicable), or announces that it intends to take action; or
 - any director or proposed director named in the pathfinder version of this Prospectus or Prospectus of the Company or SaleCo is disqualified from managing a corporation under sections 206B, 206C, 206D, 206E or 206F of the Corporations Act; and/or

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- in the reasonable opinion of that Joint Lead Manager, a statement in any of the Offer documents or any public or other media statements made by, or on behalf of and within the knowledge of the Company or SaleCo (**Public Information**) is or becomes misleading or deceptive or is likely to mislead or deceive, or a matter required to be included is omitted from an Offer document or the Public Information (including, without limitation, having regard to the Provisions of Part 6D.2 of the Corporations Act);

Termination events subject to materiality

A Joint Lead Manager may, at any time after the date of the Underwriting Agreement until 4.00pm on the Completion date (without any cost or liability by notice to the Company, SaleCo and the other Joint Lead Manager), terminate the Underwriting Agreement without any cost or liability by notice to the Company, SaleCo and the other Joint Lead Manager if any of the following events occur and the Joint Lead Manager has reasonable grounds to believe the event:

- has or is likely to have a materially adverse effect on the success, settlement, outcome or marketing of the Offer, or on the ability of the Joint Lead Manager to market, promote or settle the Offer, or on the likely price Shares will trade at on the ASX following the Offer, or the willingness of investors to subscribe for Shares under the Offer, or
- will, or is likely to, give rise to a liability of the Joint Lead Manager under, or a contravention by the Joint Lead Manager or its affiliates or the Joint Lead Manager or its affiliate being involved in a contravention of, any applicable law:
 - in the reasonable opinion of the Joint Lead Managers, there are not, or there ceases to be, reasonable grounds for any statement or estimate in the Offer documents which relate to a future matter;
 - any statement or estimate in the Offer documents which relate to a future matter is, in the reasonable opinion of the Joint Lead Managers, unlikely to be met in the projected timeframe (including in each case financial forecasts);
 - if any of the obligations of the relevant parties under any of the contracts that are material to the business of the Group or any of the material contracts are not capable of being performed in accordance with their terms (in the reasonable opinion of the Joint Lead Managers) or if all or any part of any of those contracts is breached;
 - there is any other change in the CEO or the board of directors, or Kate Morris and James Height resign or change their position within the Company;
 - the due diligence report, verification material or any other information provided by or on behalf of the Company or SaleCo to the Joint Lead Managers in relation to the Group or the Offer is (or is likely to), or becomes (or becomes likely to be), untrue, incorrect, misleading or deceptive, including by way of omission;
 - an event occurs which is, or is likely to give rise to an adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company or the Group (insofar as the position in relation to an entity in the Group affects the overall position of the Company), including any adverse change in the assets, liabilities, financial position or performance, profits, losses or prospects of the Company or the Group from those respectively disclosed in any Offer document or the Public Information;
 - there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State of Australia a new law, or the Reserve Bank of Australia, or any Commonwealth or State authority or ASIC, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced prior to the date of this agreement) any of which does or is likely to prohibit or regulate the Offer, capital markets or stock markets;
 - there is a contravention by the Company, SaleCo or any other Group Company of the Corporations Act, the *Competition and Consumer Act 2010* (Cth), ASIC Act (any regulations under those acts) or any other applicable law or regulation;
 - any of the Offer documents or any aspect of the Offer does not comply with the Corporations Act (and all regulations under that act), the Listing Rules or any other applicable law or regulation;
 - a representation, warranty, undertaking or obligation contained in this agreement on the part of the Company or SaleCo (whether severally or jointly) is breached, becomes not true or correct or is not performed;
 - the Company or SaleCo defaults (whether severally or jointly) on 1 or more of its obligations under the Underwriting Agreement;
 - the Company varies any term of its constitution without the prior written consent of the Joint Lead Managers;
 - the commencement of legal proceedings against the Company, SaleCo, any other Group Company or against any director of the Company, SaleCo or any other Group Company in that capacity; or
 - any regulatory body commences any enquiry or public action against a Group Company or makes any adverse finding or ruling in relation to a Group Company;
 - hostilities not presently existing commence (whether war has been declared or not) or an escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the People's Republic of China, Hong Kong, Singapore, the United States of America and the United Kingdom, or the declaration by any of these countries of a new national emergency, or a major escalation of a national emergency

by any of these countries, or a major terrorist act is perpetrated in any of these countries, or any diplomatic, military, commercial or political establishment of any of these countries;

- a statement in any closing certificate is false, misleading, inaccurate or untrue or incorrect;
- a general moratorium on commercial banking activities in Australia, New Zealand, the People's Republic of China, Hong Kong, Singapore, the United States of America or the United Kingdom is declared by the relevant central banking authority in those countries, or there is a disruption in commercial banking or security settlement or clearance services in any of those countries;
- trading in all securities quoted or listed on ASX, New York Stock Exchange, London Stock Exchange, Hong Kong Stock Exchange or the Tokyo Stock Exchange is suspended or limited in a material respect for 1 day (or a substantial part of 1 day) on which that exchange is open for trading; or
- there is a difference between the information contained in the pathfinder version of this Prospectus and the information required to be contained in this Prospectus.

Representations, warranties, undertakings and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by the Company and SaleCo to the Joint Lead Managers.

The representations and warranties given by the Company and SaleCo relate to matters such as conduct of the Company and SaleCo, power and authorisations, information provided by the Company and SaleCo, financial information, information in this Prospectus, the conduct of the Offer, compliance with laws, the ASX Listing Rules and other legally binding requirements.

The Company also provides additional representations and warranties in connection with matters including, but not limited to, in relation to its assets, litigation, non-disposal of escrowed Shares, entitlements of third parties, tax, insurance, authorisations and eligibility for Listing.

The Company's undertakings include, among other things, that it will not, during the period following the date of the Underwriting Agreement until 120 days after Shares have been issued under the Offer, issue (or agree to issue) any Shares or securities without the prior written consent of the Joint Lead Managers, subject to certain exceptions.

Indemnity

Subject to certain customary exclusions (including fraud, wilful misconduct, bad faith, recklessness or gross negligence), the Company and SaleCo agree to keep the Joint Lead Managers and certain affiliated parties indemnified from losses suffered in connection with the Offer.

9.5.2 Relationship Deeds

Adore Beauty entered into a Relationship Deed with Quadrant Growth Fund and a Relationship Deed with Kate Morris and James Height (together, the **Founders**) on 6 October 2020. The Relationship Deeds are on substantially the same terms and govern the relationship between, respectively, Adore Beauty and Quadrant Growth Fund and Adore Beauty and the Founders for so long as either Quadrant Growth Fund or the Founders (together) hold 10% of issued Shares in Adore Beauty. The Relationship Deeds have the following key terms:

- the obligations of the parties to the Relationship Deed are conditional on, amongst other things, Completion;
- Quadrant Growth Fund agrees that dealings with Adore Beauty and with their respective affiliates will be on arm's length terms;
- the Founders agree that dealings with Adore Beauty and with their respective affiliates will be on arm's length terms;
- contain obligations in relation to managing conflicts and the appropriate use of confidential information between the parties to the Relationship Deed;
- Quadrant Growth Fund has the right to nominate one Director to the Board and to appoint one observer while it holds at least 10% of the issued Shares. While Justin Ryan is employed by an affiliate of Quadrant Growth Fund and is a Director, Quadrant Growth Fund will not exercise its right to appoint a nominee Director of Quadrant Growth Fund;
- the Founders (together) have the right to nominate one Director to the Board while they hold (in aggregate) at least 10% of the issued Shares. Kate Morris is the initial nominee Director of the Founders;
- each of Quadrant Growth Fund and the Founders are granted access rights in respect of certain information of Adore Beauty including monthly and other periodic financial reports prepared by management and other information received by their respective nominees in connection with their appointment as a director of Adore Beauty; and
- each Relationship Deed terminates on either Quadrant Growth Fund or the Founders (in aggregate) (as applicable) ceasing to hold at least 10% of the issued Shares in Adore Beauty.

Section 9. Additional Information**9.6. Voluntary escrow arrangements****Escrow arrangements**

The following Existing Shareholders are subject to voluntary escrow arrangements:

Shareholder	Number of Escrowed Shares on Completion of the Offer	Escrowed Shares (as a % of Shares on issue on Completion of the Offer)
Quadrant Growth Fund	30,600,001	32.5%
Kate Morris	10,200,000	10.8%
James Height	10,200,000	10.8%
Tennealle O'Shannessy	868,502	0.9%
Stephanie Carroll	86,850	0.1%
HAJA Holdings Pty Limited	203,740	0.2%
Dan Ferguson	619,452	0.7%
Sarah Mullen	823,192	0.9%
Gareth Williams	597,427	0.6%
TOTAL	54,199,164	57.6%

Each Escrowed Shareholder has agreed to enter into an voluntary escrow deed in respect of their Shareholding on Completion of the Offer (other than Shares acquired under the Offer), which prevents them from disposing of their respective Escrowed Shares for the applicable Escrow Period as described below.

The restriction on disposing is broadly defined in the voluntary escrow deeds outlined in this Section. It restricts the Escrowed Shareholder from, among other things, selling, assigning, transferring or otherwise disposing of any legal, beneficial or economic interest in the Escrowed Shares, creating or agreeing to create a security interest over the Escrowed Shares, doing, or omitting to do, any act if the act or omission would have the effect of transferring effective ownership or control of any of the Escrowed Shares or agreeing to do any of those things.

Escrow Period

The Escrowed Shares will be subject to voluntary escrow arrangements until the release of the Company's financial results for FY21.

Restrictions on transfers

During the Escrow Period, Escrowed Shareholders whose Shares remain subject to escrow may dispose of any of their Escrowed Shares to the extent that the disposal is:

- the Escrowed Shareholder to accept a bona fide takeover bid in respect of all or a proportion of the Shares, provided the holders of at least half of the Shares that are not subject to any voluntary escrow deed, and to which the offers under the bid relate, have accepted an offer under the takeover bid; and
- the transfer or cancellation of the Escrowed Shares as part of a scheme of arrangement under Part 5.1 of the Corporations Act, provided that the scheme of arrangement has received all necessary approvals, including such necessary court and Shareholder approvals,

provided, in each case, that if for any reason any or all Escrowed Shares are not transferred or cancelled in accordance with such a takeover bid or scheme of arrangement (including because the takeover bid does not become unconditional), then the Escrowed Shareholder agrees that the restrictions applying to the Escrowed Shares under the voluntary escrow deed will continue to apply.

9.7. Finance arrangements

Adore Beauty has entered into 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**). Funding provided under the Banking Facility will be used to refinance existing facilities and to fund the working capital purposes of the Group Companies. 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.

The Banking Facility will attract a commitment fee on undrawn commitments at a rate of 50% of the Banking Facility margin. Adore Beauty will also be required to pay an upfront fee of \$100,000, payable on the date of first utilisation under the Banking Facility.

If a review event occurs under the Banking Facility and an agreement cannot be reached after consultation between the Lender and Adore Beauty for 60 days (at which time the review event is subsisting) the Lender may, by notice to Adore Beauty, require repayment of the Banking Facility in full within 90 days from the date of that notice. A review event will occur under the Banking Facility if:

- any person (either alone or jointly) other than the manager of the Quadrant Growth Fund or their affiliate (either alone or jointly) directly or indirectly gains control (as defined in the Corporations Act) of Adore Beauty; or
- Adore Beauty is removed from the official list of the ASX for a continuous period of more than 5 Business Days or any class of securities in Adore Beauty are suspended from trading on the ASX for a continuous period of more than 15 Business Days (for reasons other than there being an announcement of a major acquisition or merger transaction).

9.8. Litigation and claims

The Company may, from time to time, be party to litigation and other claims and disputes incidental to the conduct of its business, including employment disputes, contractual disputes, indemnity claims and occupational and personal claims. Such litigation, claims and disputes, including the costs of settling claims and operational impacts, could materially adversely affect the Company's business, operating and financial performance.

As far as the Directors are aware, however, there is no current or threatened civil litigation, arbitration proceeding or administrative appeal, or criminal or Governmental prosecution of a material nature in which the Company is directly or indirectly concerned which is likely to have a material adverse impact on the business or financial position of the Company.

9.9. Ownership restrictions

The sale and purchase of Shares in Australia are regulated by a number of laws that restrict the level of ownership or control by any one person (either alone or in combination with others). This Section 9.9 contains a general description of these laws.

Corporations Act

The takeover provisions in Chapter 6 of the Corporations Act restrict acquisitions of shares in listed companies, and unlisted companies with more than 50 members, if the acquirer's (or another party's) voting power would increase to above 20%, or would increase from a starting point that is above 20% and below 90%, unless certain exceptions apply. The Corporations Act also imposes notification requirements on persons having voting power of 5% or more in the Company either themselves or through an associate.

Foreign Acquisitions and Takeovers Act 1975 (Cth) and Federal Government Foreign Investment Policy

Generally, the Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**) applies to acquisition of shares and voting power in a company of 20% or more by a single foreign person and its associates (**Substantial Interest**), or 40% or more by two or more unassociated foreign persons and their associates (**Aggregate Substantial Interest**). Where a foreign person holds a Substantial Interest in the Company or foreign persons hold an Aggregate Substantial Interest in the Company, the Company will itself be a "foreign person" for the purposes of FATA.

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In addition, FATA applies to acquisitions of a direct interest in an Australian company by foreign governments and their related entities irrespective of the acquisition value. A “direct interest” is an interest of 10% in the entity but may also include an interest of less than 10% where the investor has entered into business arrangements with the entity or the investor in a position to influence or participate in the management and control or policy of the entity. There are exemptions which can apply to certain acquisitions.

Where FATA applies to the acquisition, the acquisition may not occur unless notice of it has been given to the Federal Treasurer and the Federal Treasurer has either notified that there is no objection to the proposed acquisition (with or without conditions) or a statutory period has expired without the Federal Treasurer objecting.

An acquisition to which the FATA applies may be the subject of a divestment order by the Federal Treasurer unless the process of notification, and either a non-objection notification or expiry of a statutory period without objection, has occurred. Criminal offences and civil penalties can apply to failing to give notification of certain acquisitions, undertaking certain acquisitions without no objection notification or contravening a condition in a no objection notification.

9.10. Regulatory relief

ASIC exemptions and relief

ASIC has granted the following exemptions from and modifications to, the Corporations Act:

- an exemption from compliance with section 1020B(2) of the Corporations Act relating to short selling to permit sale of Shares during the period of conditional trading on ASX;
- relief to extend the benefit of ASIC Class Order 14/1000 to the grant of options under the LTI Offer; and
- relief under section 741(1)(a) of the Corporations Act from the application of section 707(3) of the Corporations Act to permit the “on-sale” of certain Shares offered other than under this Prospectus.

ASX confirmations

ASX has granted confirmations in respect of the following ASX Listing Rules:

- confirmation that the Company may undertake deferred and conditional settlement trading of Shares, subject to certain conditions to be approved by the ASX;
- confirmation that the Company has a structure and operations acceptable to ASX for admission to the official list for the purposes of Listing Rule 1.1 (Condition 1); and
- confirmations in respect of Listing Rule 7.1 in relation to the issue of IPO Shares and options under the LTI Offer and 10.11 (or in the alternative, a waiver from Listing Rule 10.11) in relation to the issue of the IPO Shares.

9.11. Taxation considerations

9.11.1. Taxation considerations generally

The comments in this Section 9.11 provide a general outlined of Australian tax issues for Australian tax resident Shareholders who acquire Shares under this Prospectus and that hold Shares on capital account for Australian income tax purposes. The categories of Shareholders considered in this summary are limited to individuals, company (other than insurance companies), trusts, partnerships and complying superannuation entities that hold their shares on capital account.

The summary does not consider the consequences of foreign resident Shareholders, insurance companies, banks, Shareholders that hold their Shares on revenue account or carry a business of trading shares, Shareholders who are exempt from Australian tax or Shareholders subject to the Taxation of Financial Arrangements regime in Division 230 of the ITAA 1997 (**TOFA Regime**) which have made elections to apply the fair value or reliance on financial reports methodologies. Shareholder who are subject to the TOFA Regime should obtain their own tax advice as to the implications under the TOFA Regime.

This summary is based on the law in Australia in force at the time of issuance of this Prospectus. Australian tax laws are complex. It also does not take into account the tax law of countries other than Australia. This summary is general in nature and is no intended to be an authoritative or complete statement of the applicable law. The taxation laws of Australia or their interpretation may change. The precise implications of ownership or disposal will depend upon each Shareholder’s specific circumstances.

Shareholders should seek professional advice on the taxation implications of holding or disposing of the Shares, taking into account their specific circumstances.

9.11.2. Taxation treatment of the acquisition of Shares

The IPO involves the acquisition of Shares which will constitute an equity interest for Australian tax purposes. There are no immediate income tax consequences to the acquirer on the acquisition of equity interests.

9.11.3. Taxation treatment of dividends

The treatment of the dividends which may be paid to investors will vary depending on whether or not the investor is an Australian resident or a non-resident Shareholder. The taxation treatment will also vary depending on the extent to which any dividends are franked.

9.11.4. Dividends received by Australian resident investors

Dividends received by Australian resident investors will be assessable income for Australian tax purposes. Generally, both the amount of the cash dividend received and an amount equal to the franking credits attached to a franked dividend must be included in assessable income in the year of receipt. Generally, an Australian resident shareholder would then be entitled to a franking offset against the income tax on this assessable dividend income. However, it is important to note that securities must be held 'at risk' for a period of 45 days, in order for any investor to be able to claim an offset for franking credits.

The level of franking credits attached to such dividends will depend on the level of franking credits generated and available to the Company, through the payment by it of Australian company tax.

The tax treatment in respect of the dividends from ordinary shares will vary depending on the nature of the investor, as follows:

Individual Investors

An individual receiving a dividend that is unfranked will include the amount of the dividend in their assessable income, with tax being paid at the individual's marginal rate of tax.

Where the dividend is fully or partly franked, the individual's assessable income is grossed up to include the franking credit attaching to the dividend. The individual should then be entitled to a tax offset equal to the amount of the franking credit.

Where the individual's marginal rate of tax is greater than the applicable corporate tax rate (which is currently 30%, unless the company qualifies for the lower base rate entity tax rate), further tax will be payable on the grossed up dividend. This is commonly referred to as "top-up tax".

Where the individual's marginal rate of tax is less than the applicable corporate tax rate, a tax offset is available to reduce tax payable on other income or alternatively results in a refund of the excess franking credits.

Corporate Investors

A corporate investor receiving an unfranked dividend will pay tax on this dividend (net of any allowable deductions) at the applicable corporate tax rate.

Where dividends are franked, the corporate investor will be entitled to offset the franking credit against its tax liability for the year. To the extent that the franking credit exceeds the corporate investor's tax liability, the excess can be converted into a carry forward loss and offset against future taxable profits (subject to the loss testing rules for companies). Generally a corporate investor cannot receive a refund of franking credits (noting there are limited exceptions for certain entities).

Further, the franked dividend may give rise to a franking credit in the corporate investor's franking account.

Complying Superannuation Funds

Complying Superannuation Funds (which includes Self-Managed Superannuation Funds) are assessable on the dividend and gross up the franked dividend in the same way as individuals and corporate investors.

A Complying Superannuation Fund investor receiving an unfranked dividend will pay tax on this dividend (net of any allowable deductions) at the rate of 15% (current, as at the date of this Prospectus).

Where dividends are franked, the Complying Superannuation Fund investor will include in its assessable income the amount of dividend received and the amount of any franking credits attached to that dividend. The Complying Superannuation Fund tax rate of 15% is then applied to the grossed up dividend. The franking credit is available to offset

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tax payable on other income of the Complying Superannuation Fund or alternatively results in a refund of the excess franking credits.

Trusts and partnerships

Investors who are trustees (other than trustees of Complying Superannuation Funds) or partnerships should include the franking credit in determining the net income of the trust or partnership. The relevant beneficiary or partner may be entitled to a share of the tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

9.11.5. Dividends received by non-resident investors

The taxation treatment of dividends received by non-resident investors will depend on whether the dividends paid are franked or unfranked.

Franked Dividends

Non-resident investors will not be subject to Australian withholding tax on fully franked dividends.

However, non-resident investors may be subject to income tax on the receipt of such dividends in their local jurisdictions.

Unfranked Dividends

It may be necessary for the Company to withhold tax from unfranked dividends paid to non-resident Shareholders and remit the tax to the ATO. Where unfranked dividends are paid to non-resident Shareholders, and the unfranked dividend is not declared to be "conduit foreign income", dividend withholding taxes must be deducted from the gross dividends paid.

The withholding tax rate on the payment of unfranked dividends per Australia's domestic income tax law is the applicable corporate tax rate. However, where the investor is resident of a country which Australia has entered into a double tax treaty with, then the rate at which withholding tax is applied will generally be lower, typically ranging from nil to 15%.

Again, non-resident investors may still be subject to income tax on the receipt of such dividends in their local jurisdictions but may be entitled to a credit for the Australian withholding tax applied.

9.11.6. Taxation treatment of disposal of Shares

As noted above, the following overview of Australian tax implications associated with the disposal of Shares is confined to investors who hold their shares on capital account.

9.11.7. Disposal of Shares by Australian resident investors

The disposal of a Share by an investor will give rise to a CGT event where the investor holds their Share on capital account. Australian tax resident investors will:

- make a capital gain where the capital proceeds received on the disposal of the Share exceed the cost base of the Share, or
- make a capital loss where the capital proceeds received on the disposal of the Share are less than the reduced cost base of the Share.

The capital proceeds will generally be equal to the amount received for the disposal of the Share. Broadly, the cost base and reduced cost base (subject to modifications) of a Share will be equal to the Issue Price of the Share plus any incidental costs of acquisition and disposal (such as brokerage).

If an investor is an individual or complying superannuation entity and has held the Share for at least 12 months or more before disposal of the Share, the Shareholder will generally be entitled to a "CGT discount" for any capital gain made on the disposal of the Share. Where the CGT discount applies, any capital gain arising (after applying any available capital losses) may be reduced by:

- 50% in the case of individuals; or
- one-third in the case of complying superannuation entities.

Investors that are companies are not entitled to a CGT discount.

Any resulting net capital gain is included in an investor's assessable income.

Where the disposal results in a net capital loss and the investor has no remaining capital gains to offset, the capital loss is carried forward and may be available to be offset against capital gains in future years (subject to the satisfaction of any applicable loss recoupment rules). Capital losses cannot be used to reduce ordinary assessable income (only capital gains).

9.11.8. Disposal of Shares by non-resident investors

Generally, for Australian income tax purposes, non-resident shareholders can disregard the capital gain or capital loss arising from the disposal of shares in Australian resident companies under Division 855 of the ITAA 1997.

Notwithstanding the above comments, certain non-resident shareholders will still be subject to Australian CGT where the Shares constitute Taxable Australian Property (**TAP**). Broadly, the Shares should only constitute TAP if both of the following requirements are satisfied:

- the investor (together with any associates) holds an interest of at least 10% of the Shares in the Company at the time of the disposal, or for a 12 month period in the 24 months preceding the disposal; and
- the Company is land rich for Australian income tax purposes (i.e. more than 50% of the market value of the Company's assets is comprised of Australian real property interests).

Based on the understanding that the Company is not currently land rich, any capital gain or loss arising to a non-resident investor on disposal of the Shares is not expected to relate to TAP and should therefore be disregarded. However, this would need to be assessed at the time of disposal.

9.11.9. Quotation of Tax File Number

It is not compulsory for Australian resident Shareholders to provide the Company with details of their Tax File Number (**TFN**) or Australian Business Number (**ABN**). However, a failure to quote a TFN or ABN (or proof of exemption) to the Company will result in the Company being required to withhold and remit tax at the top marginal rate (currently 45% plus 2% Medicare levy) from unfranked dividends paid to the relevant Australian resident Shareholder. The amount withheld in these circumstances should be available as a credit against the investor's tax liability.

9.11.10. Goods and Services Tax (GST)

No GST is applicable to the issue or transfer of the Shares given that, under current law, shares in a company are an input-taxed financial supply for GST purposes. However, investors may incur GST on costs that relate to their participation in the proposed offer and should seek their own independent advice in relation to the GST implications.

9.11.11. Stamp Duty

On the basis that the Company is not a landholder for stamp duty purposes in any Australian jurisdiction, no stamp duty should be payable by investors on acquisition of the Shares.

9.12. Consents to be named and disclaimers of responsibility

Each of the parties listed below in this Section 9.12, each a consenting party, to the maximum extent permitted by law, expressly disclaims all liabilities in respect of, makes no representations regarding and takes no responsibility, for any statements in or omissions from this Prospectus, other than the reference to its name in the form and context in which it is named and a statement or report included in this Prospectus with its consent as specified below.

Each of the parties listed below has given and has not, at the time of lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of statements in this Prospectus that are specified below in the form and context in which the statements appear:

- each of Morgan Stanley Securities Australia Limited and UBS AG, Australia Branch has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Joint Lead Manager to the Offer in the form and context in which it is named;
- KPMG Corporate Finance has given, and has not withdrawn prior to the date of the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Financial Advisor to the Company in the form and context in which it is named;
- Shaw and Partners Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Lead Manager to the Offer in the form and context in which it is named;

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- each of Crestone Wealth Management Limited, JBWere Limited and Morgan Stanley Wealth Management Australia Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Co-Managers to the Offer in the form and context in which it is named;
- Gilbert + Tobin has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Australian legal adviser (other than in relation to taxation matters) to the Company and SaleCo in relation to the Offer in the form and context in which it is named;
- Grant Thornton Corporate Finance Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Investigating Accountant to the Company in relation to the Financial Information in the form and context in which it is named and to the inclusion of its Investigating Accountant's Report on the Financial Information set out in Section 8 in the form and context in which it appears in this Prospectus;
- Grant Thornton Corporate Finance Pty Ltd has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as tax advisers to the Company in the form and context in which it is so named;
- Link Market Services Limited has given, and has not withdrawn prior to the lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus as Share Registry of the Company in the form and context in which it is named. Link Market Services Limited has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry to the Company. Link Market Services Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus; and
- Frost & Sullivan has given, and has not withdrawn before lodgement of this Prospectus with ASIC, its written consent to be named in this Prospectus in relation to the inclusion in this Prospectus of references to its report Independent Market Report in the form and context in which they are included. Frost & Sullivan takes no responsibility for any part of this Prospectus other than any reference to its name and its report.

9.13. Governing law

This Prospectus and the contracts that arise from the acceptance of the Applications and bids under the Prospectus are governed by the laws applicable in Victoria and each Applicant submits to the exclusive jurisdiction of the courts of Victoria.

9.14. Statement of Directors

This Prospectus is authorised by each Director of the Company and SaleCo who consents to its lodgement with ASIC and its issue.

9.15. Selling restrictions

This Prospectus does not constitute an offer of Shares in any jurisdiction in which it would be unlawful. In particular, this document may not be distributed to any person, and the Shares may not be offered or sold, in any country outside Australia except to the extent permitted below.

Canada (British Columbia, Ontario and Quebec provinces)

This document constitutes an offering of Shares only in the Provinces of British Columbia, Ontario and Quebec (the **Provinces**), only to persons to whom Shares may be lawfully distributed in the Provinces, and only by persons permitted to sell such securities. This document is not a prospectus, an advertisement or a public offering of securities in the Provinces. This document may only be distributed in the Provinces to persons who are "accredited investors" within the meaning of National Instrument 45-106 – Prospectus Exemptions, of the Canadian Securities Administrators.

No securities commission or authority in the Provinces has reviewed or in any way passed upon this document, the merits of the Shares or the offering of the Shares and any representation to the contrary is an offence.

No prospectus has been, or will be, filed in the Provinces with respect to the offering of Shares or the resale of such securities. Any person in the Provinces lawfully participating in the offer will not receive the information, legal rights or protections that would be afforded had a prospectus been filed and receipted by the securities regulator in the applicable Province. Furthermore, any resale of the Shares in the Provinces must be made in accordance with applicable Canadian securities laws. While such resale restrictions generally do not apply to a first trade in a security of a foreign, non-Canadian reporting issuer that is made through an exchange or market outside Canada, Canadian purchasers should seek legal advice prior to any resale of the Shares.

The Company as well as its directors and officers may be located outside Canada and, as a result, it may not be possible for purchasers to effect service of process within Canada upon the Company or its directors or officers. All or a substantial portion of the assets of the Company and such persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against the Company or such persons in Canada or to enforce a judgment obtained in Canadian courts against the Company or such persons outside Canada.

Any financial information contained in this document has been prepared in accordance with Australian Accounting Standards and also comply with International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board. Unless stated otherwise, all dollar amounts contained in this document are in Australian dollars.

Statutory rights of action for damages and rescission. Securities legislation in certain Provinces may provide a purchaser with remedies for rescission or damages if an offering memorandum contains a misrepresentation, provided the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's Province. A purchaser may refer to any applicable provision of the securities legislation of the purchaser's Province for particulars of these rights or consult with a legal adviser.

Certain Canadian income tax considerations. Prospective purchasers of the Shares should consult their own tax adviser with respect to any taxes payable in connection with the acquisition, holding or disposition of the Shares as there are Canadian tax implications for investors in the Provinces.

Language of documents in Canada. Upon receipt of this document, each investor in Canada hereby confirms that it has expressly requested that all documents evidencing or relating in any way to the sale of the Shares (including for greater certainty any purchase confirmation or any notice) be drawn up in the English language only. Par la réception de ce document, chaque investisseur canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en anglais seulement.

China

This document has not been approved by, nor registered with, any competent regulatory authority of the People's Republic of China (excluding, for purposes of this paragraph, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan). Accordingly, the Shares may not be offered or sold, nor may any invitation, advertisement or solicitation for Shares be made from, within the PRC. This document does not constitute an offer of Shares within the PRC.

The Shares may not be offered or sold to legal or natural persons in the PRC other than to: (i) "qualified domestic institutional investors" as approved by a relevant PRC regulatory authority to invest in overseas capital markets; (ii) sovereign wealth funds or quasi-government investment funds that have the authorization to make overseas investments; or (iii) other types of qualified investors that have obtained all necessary PRC governmental approvals, registrations and/or filings (whether statutorily or otherwise).

European Union

This document has not been, and will not be, registered with or approved by any securities regulator in the European Union. Accordingly, this document may not be made available, nor may the Shares be offered for sale, in the European Union except in circumstances that do not require a prospectus under Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union (the **Prospectus Regulation**).

In accordance with Article 1(4)(a) of the Prospectus Regulation, an offer of Shares in the European Union is limited to persons who are "qualified investors" (as defined in Article 2(e) of the Prospectus Regulation).

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

Section 9. Additional Information

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Malaysia

This document may not be distributed or made available in Malaysia. No approval from, or recognition by, the Securities Commission of Malaysia has been or will be obtained in relation to any offer of Shares. The Shares may not be offered, sold or issued in Malaysia except pursuant to, and to persons prescribed under, Schedules 5 and 6 of the Malaysian Capital Markets and Services Act.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the Financial Markets Conduct Act 2013 (the **FMC Act**). The Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Norway

This document has not been approved by, or registered with, any Norwegian securities regulator under the Norwegian Securities Trading Act of 29 June 2007 no. 75. Accordingly, this document shall not be deemed to constitute an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act. The Shares may not be offered or sold, directly or indirectly, in Norway except to “professional clients” (as defined in the Norwegian Securities Trading Act).

Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore Securities and Futures Act (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company’s shares, (ii) an “institutional investor” (as defined in the SFA) or (iii) an “accredited investor” (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange or on any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the Shares constitutes a prospectus or a similar notice, as such terms are understood under art. 35 of the Swiss Financial Services Act or the listing rules of any stock exchange or regulated trading facility in Switzerland.

Neither this document nor any other offering or marketing material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland. The Shares will only be offered to investors who qualify as “professional clients” (as defined in the Swiss Financial Services Act). This document is personal to the recipient and not for general circulation in Switzerland.

No offering or marketing material relating to the Shares has been, nor will be, filed with or approved by any Swiss regulatory authority or authorised review body. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (**FINMA**).

United Arab Emirates

This document does not constitute a public offer of securities in the United Arab Emirates and the Shares may not be offered or sold, directly or indirectly, to the public in the UAE. Neither this document nor the Shares have been approved by the Securities and Commodities Authority (**SCA**) or any other authority in the UAE.

This document may be distributed in the UAE only to “qualified investors” (as defined in the SCA Board of Directors’ Chairman Decision No. 37 RM of 2019, as amended) and may not be provided to any person other than the original recipient. No marketing of the Shares has been, or will be, made from within the UAE other than in compliance with the laws of the UAE and no subscription for any securities may be consummated within the UAE.

No offer or invitation to subscribe for Shares is valid, or permitted from any person, in the Abu Dhabi Global Market or the Dubai International Financial Centre.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (**FSMA**)) has been published or is intended to be published in respect of the Shares.

The Shares may not be offered or sold in the United Kingdom by means of this document or any other document, except in circumstances that do not require the publication of a prospectus under section 86(1) of the FSMA. This document is issued on a confidential basis in the United Kingdom to “qualified investors” (within the meaning of Article 2(e) of the Prospectus Regulation (2017/1129/EU), replacing section 86(7) of the FSMA). This document may not be distributed or reproduced, in whole or in part, nor may its contents be disclosed by recipients, to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together “relevant persons”). The investment to which this document relates is available only to relevant persons. Any person who is not a relevant person should not act or rely on this document.

United States

This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. The Shares have not been, and will not be, registered under the US Securities Act of 1933 or the securities laws of any state or other jurisdiction of the United States. The Shares will not be offered or sold in the United States.

For personal use only

Section 10.

Glossary



Term	Meaning
1H FY20 and 1H FY21F	the six month periods ended or ending 31 December 2019 and 31 December 2020, respectively.
AAS and AASB	Australian Accounting Standards and Australian Accounting Standards Board.
AASB 16	Australian Accounting Standard AASB 16 <i>Leases</i> .
ABN	Australian Business Number.
Aggregate Substantial Interest	has the definition given in Section 9.9.
Accounting Standards	accounting standards, principles and practices applying by law or otherwise generally accepted and consistently applied in Australia.
Active Customers	customers who have purchased a product from Adore Beauty over the past 12 months.
Adore Opco	Adore Beauty Pty Limited ACN 123 655 783
AEST	Australian Eastern Standard Time.
AOF	average order frequency.
AOV	average order value.
API	application programming interface, being a set of functions and procedures allowing the creation of applications that access the features or data of an operating system, application, or other service.
Applicant	a person who submits an Application.
Application	an application made to subscribe for Shares offered under this Prospectus.
Application Form	the application form attached to or accompanying this Prospectus and any supplementary or replacement prospectus (including the electronic form provided by an online application facility).
Application Monies	the amount of money accompanying an Application Form submitted by an Applicant.
ASAE	Australian Standard on Assurance Engagements.
ASAE 3450	Australian Standard on Assurance Engagements ASAE 3450 <i>Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information</i> .
ASIC	the Australian Securities and Investments Commission.
ASTC	ASX Settlement and Transfer Corporation.
ASX	ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market operated by it.
ASX Recommendations	revised in 2019, the fourth edition ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.
ASX Listing Rules	the listing rules of ASX.
ASX Settlement Operating Rules	the settlement rules of ASX as amended, varied or waived from time to time.
ATO	Australian Tax Office
A\$, AUD\$, Dollar or \$	Australian dollars unless otherwise stated.
B2B	business to business transactions.
B2C	business to consumer transactions.
Banking Facility	has the definition given in Section 9.7.
Beauty IQ	Adore Beauty's proprietary editorial content platform.
BeautyWise	Adore Beauty's AI-driven beauty recommendation engine.
Board or Board of Directors	the board of Directors of the Company.

Section 10. Glossary

Term	Meaning
BPC	beauty and personal care.
Broker	any ASX participating organisation selected by the Joint Lead Managers and the Company to act as a Broker to the Offer.
Broker Firm Offer	the offer of Shares under this Prospectus to Australian resident retail clients of Brokers who have received a firm allocation from their Broker.
Broker Firm Offer Applicant	a person who submits an Application under the Broker Firm Offer.
Business Day	a day on which trading takes place on the stock market of ASX.
Buy Now Pay Later or BNPL	a payment service that enables consumers to pay for purchases in instalments.
C2C	consumer to consumer transactions.
C2B	consumer to business transactions.
CAC	customer acquisition cost.
CAGR	compound annual growth rate.
Capital expenditure	the combination of capitalised development costs and other costs primarily related to the property, plant and equipment and website costs as described in Section 4.3.
Capitalised development costs	costs related to significant enhancements to Adore Beauty's technology that are expected to derive a future benefit to Adore Beauty and are capitalised in accordance with AASB as described in Section 4.3.
CEO	Chief Executive Officer.
CFO	Chief Financial Officer.
CGT	Capital Gains Tax.
CHESS	Clearing House Electronic Subregister System, operated in accordance with the ASX Listing Rules and the ASX Settlement Operating Rules.
Closing Date	The date on which the Offer is expected to close, being Wednesday, 21 October 2020 in respect of the Retail Offer and Thursday, 1 October 2020 in respect of the Institutional Offer. These dates may be varied without prior notice.
CMO	Chief Marketing Officer.
COO	Chief Operating Officer.
Cohort	the group of customers who place their first order with Adore Beauty in a particular financial year.
Co-Lead Manager	Shaw and Partners Limited.
Co-Managers	Crestone Wealth Management Limited, JBWere Limited and Morgan Stanley Wealth Management Australia Pty Ltd.
Company, we, us, our or Adore Beauty	Adore Beauty Group Limited ACN 636 138 988.
Completion	the date on which Shares are issued or transferred to successful applicants in accordance with the terms of the Offer.
Complying Superannuation Funds	has the definition given in 9.11.4.
Constitution	the Company's Constitution as at the Prospectus Date.
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Cost of Sales	the total of product costs, supplier rebates, brand contribution, freight, packaging and giveaways as described in Section 4.7.1.4.

Term	Meaning
COVID-19	the 2019-20 coronavirus pandemic.
CY19	calendar year ended 31 December 2019.
CY20F	calendar year ending 31 December 2020.
D2C	direct to consumer.
Directors	the directors of the Company.
E-Commerce	a business model that enables individuals and companies to conduct a wide range of commercial transactions via the internet.
EBIT	earnings before interest and tax.
EBITDA	net profit/(loss) before interest on debt (including interest on the lease liability recognised under AASB 16), income tax benefit/(expense), depreciation (including depreciation on the right of use asset recognised under AASB 16) and amortisation (including amortisation of capitalised development costs).
EFT	electronic funds transfer.
Eligible Gift Employees	all Australian tax resident employees (including permanent and casual employees) who are employed by the Group and who do not hold a beneficial interest in more than 10% of the Shares in the Company or 10% of the votes that might be cast at a general meeting.
Employee Costs	presented as all personnel and related costs (including salaries, wages, share based payments, payroll tax, superannuation, leave entitlements and other related on-costs).
Employee Gift Offer	the offer made under this Prospectus under which Eligible Gift Employees who have received a personalised invitation from the Company may acquire, at no cost, \$1,000 worth of Shares (rounded down to the nearest whole Share based on the Offer Price) as described in Section 7.5.
Escrow Period	the period from Completion of the Offer until 4.15pm (AEST) on the day that the full year financial results for FY21 are submitted to the ASX for release to the market. This period is subject to certain exceptions as outlined in Section 9.6.
Escrowed Shares	each of the Shares held by the Escrowed Shareholders at Completion of the Offer (other than any Shares issued in connection with the Employee Gift Offer).
Escrowed Shareholders	Existing Shareholders that have entered into a voluntary escrow deed with the Company in relation to their Shares, as described in Section 9.6.
Exercise Conditions	the Board may determine that Awards in the form of options or rights will be subject to further conditions which must be satisfied or waived before vested options or rights may be exercised, described in Section 6.4.1.8.
Expiry Date	15 years from the date of grant of the Options or Rights, or such other date determined by the Board and specified in the invitation, described in Section 6.4.1.8.
Existing Shares	the Shares held by the Existing Shareholders.
Existing Shareholders	those persons holding Shares as at the Prospectus Date.
Exposure Period	the seven day period after the Prospectus Date, which may be extended by ASIC for up to an additional seven days.
FATA	<i>Foreign Acquisitions and Takeovers Act 1975 (Cth).</i>
Financial Information	Historical Financial Information and Forecast Financial Information collectively described in Section 4.1.
Findation	Findation Pty Ltd ACN 619 184 799.
FINMA	the Swiss Financial Market Supervisory Authority.
the FMC Act	the Financial Markets Conduct Act 2013.
Founders	Kate Morris and James Height.

Section 10. Glossary

Term	Meaning
FPO	the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005.
the FSMA	the Financial Services and Markets Act 2000.
Forecast Financial Information	Statutory Forecast Financial Information and Pro Forma Forecast Financial Information.
FY18, FY19 and FY20	financial year ended 30 June 2018, 30 June 2019 and 30 June 2020 respectively.
Gross Profit	revenue less cost of sales.
Group Company	the Company, a subsidiary of the Company, any companies which are 50% or more owned directly or indirectly by any other Group Company, or any partnership or unincorporated joint venture in which any Group Company or a related body corporate of the Company has an interest of 50% or more as described in Section 6.4.1.2.
GST	goods and services tax.
HighJump	the Company's warehouse management system as described in Section 3.5.1.2.
HIN	Holder Identification Number for Chess.
Historical Financial Information	Statutory Historical Financial Information and Pro Forma Historical Financial Information.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Independent Market Expert or Frost & Sullivan	Frost & Sullivan Australia Pty Limited.
Independent Market Report	the report prepared by the Independent Market Expert.
Institutional Investors	<p>investors who are:</p> <ul style="list-style-type: none"> Persons in Australia who are wholesale clients under Section 761G of the Corporations Act and either "professional investors" or "sophisticated investors" under sections 708(11) and 708(8) of the Corporations Act; and Institutional investors in certain other jurisdictions, as agreed by the Company and the Joint Lead Managers to whom offers of Shares may lawfully be made without the need for a lodged or registered prospectus or other form of disclosure document or filing with, or approval by, any governmental agency (except one with which the Company is willing in its discretion to comply); provided that if such person is in the United States, it is either a person that the Joint Lead Managers reasonably believe to be a "qualified institutional buyer" as defined in Rule 144A under the U.S. Securities Act or a dealer or other professional fiduciary within the meaning of Rule 902(k)(2)(i) of Regulation S under the U.S. Securities Act.
Institutional Offer	the invitation to Institutional Investors under this Prospectus to acquire Shares, as described in Section 7.8.
Investigating Accountant	Grant Thornton Corporate Finance Pty Limited.
Investigating Accountant's Report	the report in Section 8.
IPO or Offer	the offer under this Prospectus of ordinary shares in the Company and the sale of a proportion of the existing Shares in the Company by SaleCo.
IPO Shares	a form of shares as described in Section 6.4.1.2.
ITAA 1997	the <i>Income Tax Assessment Act 1997</i> (Cth).
Joint Lead Managers	UBS AG, Australia Branch and Morgan Stanley Australia Securities Limited and Joint Lead Manager means any one of them.

Term	Meaning
KPI	key performance indicators.
KPMG Corporate Finance	a division of KPMG Financial Advisory Services (Australia) Pty Limited.
Loan Funded Share Plan Deed	referred to in Section 6.4.1.8(a).
Loan Shares	the ordinary shares issued on conversion of the management shares, described in Section 6.4.1.8.
Listing	the commencement of trading in Shares on the Official List of the ASX.
Listing Rules	the listing rules of ASX.
LTV	life time value.
LTI Offer	the long-term incentive offer described in Section 6.4.1.7.
LTIP	long-term incentive plan.
LTIP Eligible Employees	employees that are eligible to participate in the LTIP as referred to in Section 6.4.1.7.
Management Equity Plan	an equity incentive plan described in Section 6.4.1.8.
Marketing and Advertising Costs	the total of all digital advertising, above the line advertising, search engine optimisation and marketing costs.
Morgan Stanley	Morgan Stanley Securities Australia Limited.
NBN	National Broadband Network.
Net cash flow	net cash flow before Offer impacts and Offer cost, after proceeds from the drawdown/ (repayment) of debt and distributions.
Net cash flow before corporate financing activities	net operating cash flow after capital expenditure and lease liability movements as described in Section 4.3.
Net operating cash flow	cash flow from operating activities after the add back of non-cash items and the impact of working capital movements as described in Section 4.3.
Net Promoter Score or NPS	a customer satisfaction metric as described in Section 3.4.4.1.
NPAT	net profit after tax.
Offer	the offer of Shares under this Prospectus.
Offer Period	the period commencing from the opening date of the Offer and ending on the applicable Closing Date.
Offer Price	A\$6.75 per Share.
Official List	the official list of ASX.
Official Quotation	quotation on the official list of ASX.
Online Retail Market	the segment of the e-commerce market that relates to transactions involving the purchasing of goods and services.
Opening Date	the opening date for receipt of Application Forms under this Prospectus being Wednesday, 14 October 2020.
PRC	People's Republic of China.
Pre-IPO Capital Reduction	the capital reduction of \$0.194 per share to be undertaken by the Company prior to Completion in relation to ordinary and class A shares held by the Existing Shareholders as at the Prospectus Date.

Section 10. Glossary

Term	Meaning
Priority Offer	the component of the Offer under which investors who have received a personalised invitation are invited to apply for Shares, as described in Section 7.4.
Proper ASTC transfer	has the meaning given in the Corporations Regulations 2001 (Cth) reg 1.0.12.
Pro Forma Financial Information	Pro Forma Historical Financial Information and Pro Forma Forecast Financial Information, collectively.
Pro Forma Forecast Cash Flows	pro forma forecast statement of cash flows for CY20F and 1H FY21F.
Pro Forma Forecast Financial Information	Pro Forma Forecast Results and Pro Forma Forecast Cash Flows, collectively.
Pro Forma Forecast Results	pro forma forecast consolidated statements of profit or loss for CY20F and 1H FY21F.
Pro Forma Historical Cash Flows	pro forma historical cash flows for FY18, FY19, FY20, CY19 and 1H FY20.
Pro Forma Historical Results	pro forma historical consolidated statements of profit or loss for FY18, FY19, FY20, CY19 or 1H FY20.
Pro Forma Historical Financial Information	Pro Forma Historical Results, Pro Forma Historical Cash Flows, and Pro Forma Historical Statement of Financial Position, collectively.
Pro Forma Historical Statement of Financial Position	pro forma historical statement of financial position as at 30 June 2020.
Profit/(loss) before tax	net profit/(loss) before income tax expenses.
Prospectus	this document (including the electronic form of this Prospectus) and any supplementary or replacement prospectus in relation to this document.
Prospectus Date	the date on which this Prospectus was lodged with ASIC, being 7 October 2020.
Prospectus Regulation	Article 1(4) of Regulation (EU) 2017/1129 of the European Parliament and the Council of the European Union.
Provinces	the Provinces of British Columbia, Ontario and Quebec.
Quadrant Growth Fund	Quadrant Growth Fund, acting through QPE Growth, LP.
Related Bodies Corporate	any of the Joint Lead Manager's respective affiliates or related bodies corporate (as defined in the Corporations Act).
Restricted Securities	the Securities expected to be subject to mandatory escrow under Appendix 9 of the ASX Listing Rules or otherwise subject to voluntary escrow.
Retail Offer	The Broker Firm Offer, the Priority Offer and the Employee Gift Offer, as described in Sections 7.3, 7.4 and 7.5.
Revenue	presented net of applicable goods and sales tax (GST), returns, refunds, chargebacks and discounts.
ROAS	return on advertising spend.
SaleCo	Adore Beauty SaleCo Limited ACN 643 792 698.
Sale Deed Poll	sale deed poll executed by each Selling Shareholder in favour of the Company and SaleCo in respect of the offer for sale of some or all of that Selling Shareholder's Shares to SaleCo.
SCA	the United Arab Emirates Securities and Commodities Authority.
Selling Shareholders	initial Selling Shareholders and other Existing Shareholders who will sell existing Shares through SaleCo.

Term	Meaning
Settlement	the settlement in respect of the Shares the subject of the Offer occurring under the Underwriting Agreement and associated settlement support arrangements.
Settlement Date	the date on which Settlement occurs.
SFA	Securities and Futures Act.
SFO	the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong.
Share	a fully paid ordinary share in the capital of the Company and, where the context permits, means the Shares the subject of the Offer.
Shareholders	the holders of Shares.
Share Registry	Link Market Services Limited ACN 083 214 537.
SKUs	stock-keeping units.
SRN	Securityholder Reference Number.
Statutory Financial Information	Statutory Historical Financial Information and Statutory Forecast Financial Information.
Statutory Forecast Cash Flows	statutory forecast statement of cash flows for 1H FY21F.
Statutory Forecast Financial Information	Statutory Forecast Results and Statutory Forecast Cash Flows for 1H FY21F, collectively.
Statutory Forecast Results	statutory forecast consolidated statements of profit or loss for 1H FY21F.
Statutory Historical Cash Flows	statutory historical consolidated cash flows for FY18, FY19, FY20 and 1H FY20.
Statutory Historical Financial Information	Statutory Historical Results, Statutory Historical Cash Flows, and Statutory Historical Statement of Financial Position, collectively.
Statutory Historical Results	statutory historical consolidated statements of profit or loss for FY18, FY19, FY20 and 1H FY20.
Statutory Historical Statement of Financial Position	statutory historical consolidated statement of financial position as at 30 June 2020.
STI	short-term incentive.
Successful Applicant	an Applicant who is issued or transferred Shares under the Offer.
TAM	total addressable market.
TAP	Taxable Australian Property.
Tate Bidco	Tate Bidco Pty Ltd ACN 636 139 485.
TFN	Tax File Number.
TOFA Regime	the Taxation of Financial Arrangements regime in Division 230 of the ITAA 1997.
TVC	television commercial.
UBS	UBS AG, Australia Branch.
Underwriting Agreement	The underwriting agreement dated on or about the date of this Prospectus between the Company and the Joint Lead Managers as described in Section 9.5.1.1.
U.S. Securities Act	U.S. Securities Act of 1933, as amended.
Working Capital	the sum of trade and other receivables, inventory, prepayments, other assets, trade and other payables, accruals, provision for income tax and other liabilities as described in Section 4.3.

Significant Accounting Policies



Basis of preparation

The Financial Information included in this Prospectus is 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. The Financial Information also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The Financial Information has been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and derivative financial instruments.

Critical accounting estimates

The preparation of the Financial Information requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Adore Beauty's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are noted below under 'Critical accounting judgements, estimates and assumptions'.

Principles of consolidation

The Financial Information incorporate the assets and liabilities of all subsidiaries of Adore Beauty Group Limited ('Company') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Adore Beauty Group Limited and its subsidiaries together are referred to in Financial Information as 'Adore Beauty'.

Subsidiaries are all those entities over which Adore Beauty has control. Adore Beauty controls an entity when Adore Beauty 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 Adore Beauty. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Adore Beauty 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 Adore Beauty.

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 Adore Beauty 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. Adore Beauty 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.

Foreign currency translation

The Financial Information is 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.

Appendix A. Significant Accounting Policies

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

Adore Beauty recognises revenue as follows:

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which Adore Beauty is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, Adore Beauty: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

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.

Interest

Interest revenue 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 revenue

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

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.

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 Adore Beauty'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 Adore Beauty'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 receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

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

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Appendix A. Significant Accounting Policies

Inventories

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises 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 of completion and the estimated costs necessary to make the sale.

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and Adore Beauty has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at amortised cost

A financial asset is measured at amortised cost only if both of the following conditions are met: (i) it is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and (ii) the contractual terms of the financial asset represent contractual cash flows that are solely payments of principal and interest.

Impairment of financial assets

Adore Beauty recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon Adore Beauty's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

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:

Office Equipment	2.5% - 20%
Computer Software	50%
Motor Vehicles	25%

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 Adore Beauty. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

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 Adore Beauty 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.

Adore Beauty 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 as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. 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.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; Adore Beauty is able to use or sell the asset; Adore Beauty 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 10 years.

Website

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.

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.

Impairment of non-financial assets

Non-financial assets are reviewed 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.

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.

Appendix A. Significant Accounting Policies

Trade and other payables

These amounts represent liabilities for goods and services provided to Adore Beauty 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, Adore Beauty'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 arising from 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.

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.

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 annual leave and 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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.

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.

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.

Critical accounting judgements, estimates and assumptions

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts in the Financial Information. 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.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Estimation of useful lives of assets

Adore Beauty determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and 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.

Appendix A. Significant Accounting Policies

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

Adore Beauty assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to Adore Beauty 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.

Income tax

Adore Beauty 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. Adore Beauty recognises liabilities for anticipated tax audit issues based on Adore Beauty'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 Adore Beauty considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 or purchase the underlying asset will be exercised, or an option to terminate the lease will not 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 Adore Beauty'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. Adore Beauty reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Employee benefits provision

The liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Adore Beauty Group Limited ("Adore Beauty") Shares. Further details about the Shares are contained in the Prospectus dated 7 October 2020 issued by Adore Beauty Group Limited. The Prospectus will expire no later than 13 months after the Prospectus Date. While the Prospectus is current, Adore Beauty Group Limited will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Australian Securities and Investments Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

By lodging the Application Form, the Applicant agrees that this Application for Shares in Adore Beauty Group Limited is upon and subject to the terms of the Prospectus and the Constitution of Adore Beauty Limited, agrees to take any number of Shares that may be issued to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of \$2,000 worth of Shares and thereafter in multiples of \$500. You may be issued all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Adore Beauty Group Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from Adore Beauty Group Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Adore Beauty Group Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.
- If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using <> as indicated above in designated spaces at section C on the Application Form.

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- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Adore Beauty Group Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from Adore Beauty Group Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Adore Beauty Group Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.
- If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using <> as indicated above in designated spaces at section C on the Application Form.

Corporate Directory

Company's registered office

Adore Beauty Group Limited

Level 1
421 High Street
Northcote VIC 3070

Joint Lead Managers

Morgan Stanley Securities Australia Limited

Level 26, Chifley Tower
2 Chifley Square
Sydney NSW 2000

UBS AG, Australia Branch

Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000
Australia

Co-Lead Manager

Shaw and Partners Limited

Level 7, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Co-Managers

Crestone Wealth Management Limited

Level 32, Chifley Tower 2
Chifley Square
Sydney NSW 2000

JBWere Limited

Level 16, 101 Collins Street
Melbourne VIC 3000

Morgan Stanley Wealth Management Australia Pty Ltd

Level 26, Chifley Tower 2
Chifley Square
Sydney NSW 2000

Legal Adviser

Gilbert + Tobin

Level 35, Tower 2,
International Towers Sydney,
200 Barangaroo Avenue
Sydney NSW 2000

Financial Adviser

KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd

Level 38, Tower Three,
International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

Share Registry

Link Market Services Limited

Level 12,
680 George Street
Sydney NSW 2000

Offer Information Line

Between 8.30am and 5.30pm (Melbourne time),
Monday to Friday

Toll free within Australia
1800 628 703

Outside Australia
+61 1800 628 703

Offer website

<https://events.miraql.com/adorebeauty-offer>

Websites

<https://www.adorebeautygroup.com.au/>
www.adorebeauty.com.au
www.adorebeauty.com.nz

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