



Release to the Australian Securities Exchange

New Adairs store openings underpin first-half sales growth

27 February 2017, Melbourne: Adairs Limited (ASX: ADH) announces its results for the twenty-six weeks ended 1 January 2017 (1H17).

1H17 (vs 1H16) snapshot:

- Sales up 5.7% to \$124.5 million
- Like for like sales growth -4.0% (cycling 1H16 of +15.4%)
- 10 new stores opened: 8 in Australia and 2 in New Zealand
- Gross profit down 0.4% to \$73.9 million
- EBITDA down 34.3% to \$14.8 million
- EBIT down 39.6% to \$12.0 million
- NPAT down 35.3% to \$8.6 million
- Comfortable gearing with net debt of \$32.2 million
- Interim dividend of 3.5 cps fully franked

Commenting on the 1H17 results, Adairs Managing Director & CEO Mark Ronan said:

“The past six months have been a challenging trading period for Adairs. In addition to the missed opportunities in the fashion linen product category, Adairs observed a softer Christmas trade than expected with key trading days under performing.”

“Our like for like sales growth during the first half finished down 4% with the decline in sales observed across all our store formats. Geographically, we observed softer trading in the northern states. Our like for like sales in 1Q was ‘flat’, however we saw a further deterioration in trading emerge progressively over 2Q. In response we acted quickly to stimulate sales activity, mark down and clear slow moving inventory.”

“Notwithstanding recent trading, our long-term growth prospects remain strong, and we are confident we can reinvigorate our track record of delivering profitable growth. In the first half we opened eight new Australian stores, which are all trading profitably. We also opened our first two New Zealand stores with early trading exceeding our expectations.”

“Our online channel continued to grow, delivering 6% growth in the first-half and accounting for 7.4% of total company sales.”

“Our Linen Lovers program again grew its membership strongly and our total transaction count was ‘flat’ on a like for like basis across the half. By taking action on slow moving product lines and driving increased promotional activity, we are confident we have maintained market position, and preserved our inventory cleanliness. This closing inventory position will assist our expected trading recovery.”

Adairs Limited

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“During the first half the business completed three significant projects:

- ERP POS rollout;
- Online re-platform; and
- Opening of the company’s first international stores and website

This now allows management to focus on the execution of core activities and growth strategies over the second half.”

Balance sheet supports growth and dividend

Adairs’ balance sheet remains strong. With net debt of \$32.2 million (<1x LTM EBITDA), the Company is well placed to continue to pursue its growth oriented strategy.

Through improvement in supplier trading terms and ongoing management the business delivered strong operating cash flow for the period.

The Board of Directors declared an interim FY17 dividend of 3.5 cents per share fully franked with a record date of 12 April 2017 and a payment date of 26 April 2017.

Effective management of Gross Profit margin

Over 1H17, Adairs’ Gross Profit margin reduced to 59.3% (from 62.9%). This was impacted by both adverse foreign exchange movements versus pcp, and additional promotional and clearance activity to drive sales and maintain clean inventory.

While Gross Profit was subject to a \$3.1 million adverse foreign exchange impact (260bp vs pcp), currency headwinds are largely neutralised in 2H supported by our current foreign exchange hedge book.

Outlook

Commenting on the outlook for Adairs in 2H17, Mr Ronan said: “We understand the issues that led to the disappointing first-half result and have taken specific actions to correct them. However it is too early to forecast a consistent improvement in our trading performance.”

“Our like for like sales over the first seven weeks of trade in 2H17 have been down 2%. Whilst this is an improvement, and in line with our expectations, we are seeing higher than usual sales volatility across product categories.”

“As the new season fashion linen has started arriving in store there are early reads on product which support the emergence of a turnaround in performance. However given the short time available and the apparent retail sector softness, we believe it could take longer for the results to materialise.”



As a result, the Company has updated its guidance for FY17 accordingly:

	H2 Guidance	FY17 Revised Guidance
Year end store numbers		160 - 165
LFL sales growth	-2% to +2%	-3% to 0%
Total sales (\$m)	130 – 140	255 – 265
Gross Margin	58% - 59.5%	58% - 59.5%
Capex (\$m)	3.5 – 5	10 – 11.5
FY17 EBIT (\$m) ¹	15 - 20	27 – 32
FY17 EPS (cps) ¹		11 – 13

Growth strategy

Commenting on the Company's growth strategy, Mr Ronan said:

“While we face short term challenges, our team is determined to deliver on our long-term strategic initiatives to drive profitable growth.”

“In line with our growth strategy, our product expansion categories have continued to grow and now account for 38% of sales, and our Homemaker format accounts for a larger proportion of our sales and store network.”

“Simultaneous with upsizing certain stores, we will continue our Australian store roll out with up to three stores to open during the second half. Importantly the new stores we have opened over the past 24 months are collectively performing to expectations and we do not believe that sales cannibalisation is a factor in our like for like sales softness.”

“Our entry into the New Zealand market, while still early days, is progressing well. Adairs Sylvia Park, which opened in Auckland in October 2016, is trading strongly. A second NZ store opened in December 2016 in Bayfair, and two additional sites are secured for opening over the second half. We expect to open more NZ stores, encouraged by the strong trading performance of our first two stores, with a bias towards our Homemaker format.”

“Another important driver of our business continues to be our online channel. Our website has been re-platformed in the last six months, which has many benefits, including enabling us to launch the Adairs New Zealand website in just six weeks. The speed and effectiveness of this launch would not have been previously possible. Additional benefits will flow as we continue to utilise the additional functionality available, and make improvements to enhance our online customer experience.”

“We are confident that the business has the right strategies to grow long term shareholder value.”



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About Adairs

Adairs Limited (ASX: ADH) is a retailer of home furnishings in Australia with a national footprint of stores across a number of formats. The company presents customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior in-store customer service. For further information visit www.adairs.com.au