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1H FY17 results presentation

27 February 2017

1H FY17 results snapshot

Sales
$124.5m
up 5.7%

LFL sales
-4.0%
Cycling +15.4% pcp

Gross profit margin
59.3%
PCP 62.9%

CODB
47.4% of sales
up from 43.8%

EBIT
$12.0m
Down 39.6%

NPAT
$8.6m
Down 35.3%

INTERIM DIV
3.5 cps fully franked

Variances refer to 1H FY17 highlights compared to 1H FY16 highlights

Agenda

1. 1H17 Business Overview

2. 1H17 Financial Performance

3. Strategic Update

4. 2H17 Outlook

1H17: Snapshot

1H17 financial performance was disappointing

- Sales up 5.7% vs pcp to $124.5m
- LFL sales down -4% (cycling +15.4% in pcp)
    - Issues most acute in Bed Linen product category, and geographically in northern states
- Online sales growth: +6.0% (7.4% of total sales)
- GM Rate down 360bp to 59.3%
- EBIT down 39.6% to $12.0m (9.7% of Sales)
- Period end inventory managed to targeted levels and ageing is similar to pcp
- Strong operating cash flow from working capital control and improvements in underlying supplier terms

Maintaining momentum of our Australian store rollout program

- 8 new stores opened in 1H17 – trading profitably
- Expect to open up to 3 new stores in 2H17

Strategic capital expenditure undertaken to underpin long term growth

- Increased mix of Homemaker format stores – 3 new Homemaker stores
- Investment in core business via 4 refurbishments including 1 upsizing to mini homemaker

Key Projects completed:

- POS Rollout finalised
- Website re-platformed
- International expansion commenced into NZ
    - Two stores now open – both stores trading in line with company expectations
    - 2 stores confirmed to open in 2H

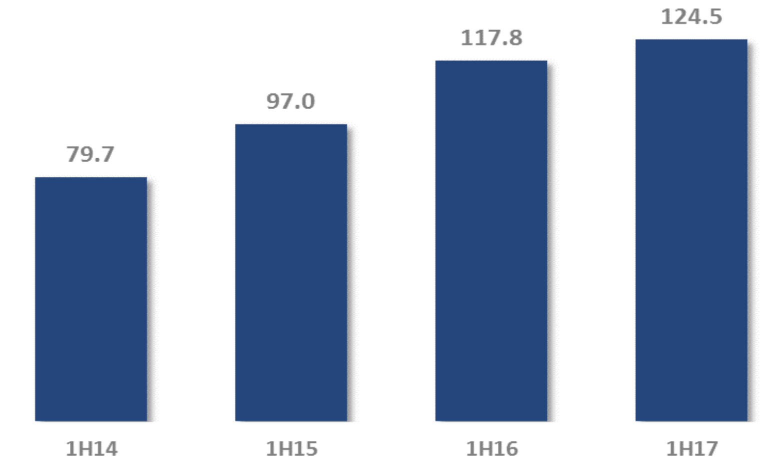
Sales Performance

Total sales increase of 5.7% on PCP (but -4% LFL)

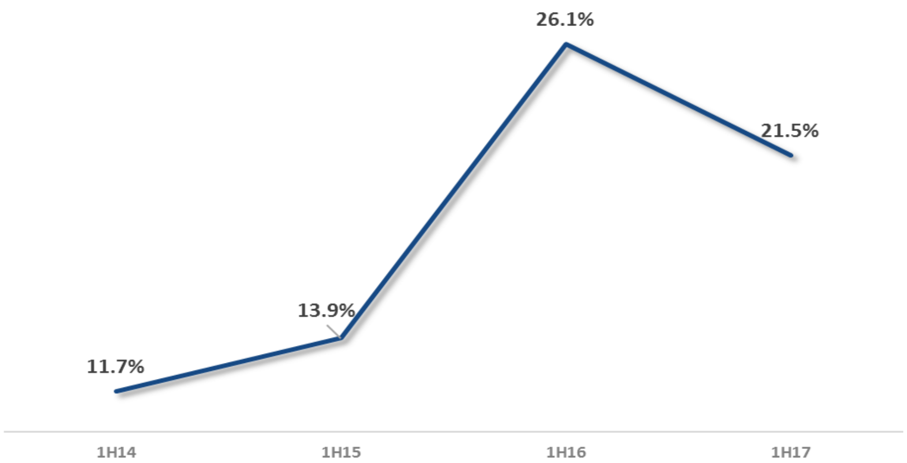
Driven by:

- New stores opened in line with plan
  - 8 new stores in Australia
  - Refurbished 4 stores
  - Opened 2 New Zealand stores
- Continued growth online +6%, despite growth impacted by product issues and re-platform conversion.
- Continuing to grow our Linen Lovers database with growth exceeding 20% on LY
- A range of our product categories have grown strongly vs LY, but insufficient to mitigate issues in Bed Linen
- Total transaction count up vs LY, but ATV down ~6%

Sales ($m)

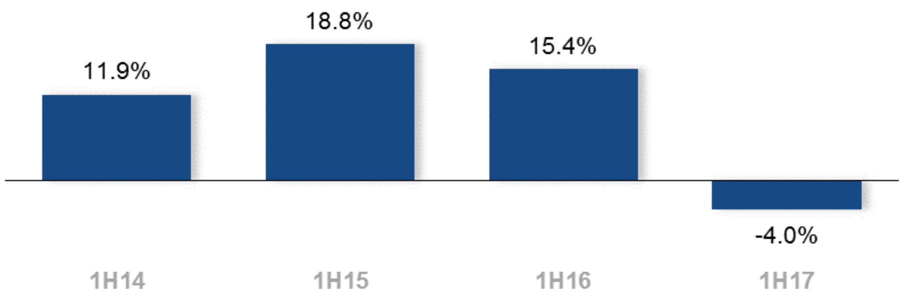


Loyalty Membership Net Growth

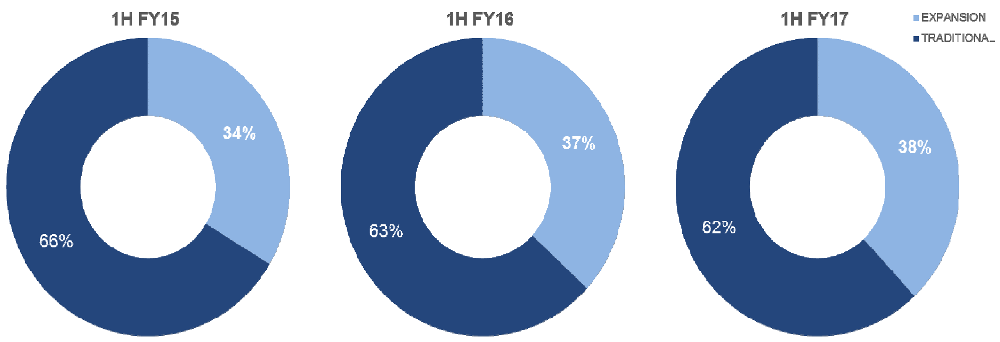


Sales Performance cont

LFL sales growth



Expansion vs Traditional Sales mix



- LFL Sales down 4% with poor trading emerging clearly in 2Q
- LFL sales decline was a result of:
  - Fashion Linen issues that began emerging through first quarter continuing through the second quarter - 1H down LFL 8%
  - Overall softer Christmas trade, with apparent lower foot traffic experienced on key days across many shopping centers
  - Sales decline felt across all store formats and states, and most acute in northern states
- Expansion Categories (vs Traditional) continue to outperform and grow, but were also impacted by lower foot traffic through December

Managing Gross Profit Margin

- 1H17 gross profit margin reduced to 59.3% from 62.9% (vs pcp)
- Impacted by:
  - FX impact on gross margin dollars was a reduction of $3.1m vs pcp (~260bp)
  - Additional promotional activity to drive sales and clear inventory in underperforming categories
- Progress made to protect margin through:
  - Landed cost price reductions obtained
  - Improved freight rates
  - Reduced duty rates

Cost of Doing Business

- Group Cost of Doing Business increased as percentage of sales to 47.4%:
  - Operating costs as a % of sales increased due to declining LFL sales – leverage impact
  - Wage increases have been offset against productivity efficiencies and reduced hours
  - Landlord occupancy costs increasing in line with contractual rental increases – impact of 110bp on CODB% on LY
  - One off costs of $720k for the half with the delivery of 3 major projects during the period – impact of 50bp on CODB % on LY
  - Controlling variable costs (wages and marketing etc) is a key focus.
  - The business will continue to invest in implementing our on going strategy to pursue growth

1H17 Strategic Projects Completed

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ERP POS Rollout completed (Microsft Dynamics AX)

- All stores trading on the new system and operated smoothly over the key Christmas trading period
- Finalising some enhancements over 2H including:
  - Migration of online stock available for purchase in store to the POS
  - Enhanced furniture order and delivery capability
- Finalising reporting and dynamic dashboard system over 2H
- Anticipate ongoing minor enhancements but the major capex has been completed and risk mitigated

Online re-platform – EpiServer

- Site speed and conversion metrics improving
- Allowed the business to quickly bring up a second site (Adairs.co.nz) in six weeks
- Allows business to now start making additional enhancements to drive revenue:
  - Furniture Online
  - Buy now pay later
  - Click and Collect

International expansion strategy into New Zealand

- Two stores open – both stores trading ahead of company expectations
- Two deals finalised to open in 2H17 – Wellington / Albany
- Look to add additional stores into the pipeline given success of first couple of stores
- NZ Website is fully functional and trading strongly in line with business performance

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1H17 performance

$ million	1H FY17	1H FY16	Change
Sales	124.5	117.8	↑ 5.7%
Gross Profit	73.9	74.2	↓ 0.4%
EBITDA	14.8	22.5	↓ 34.3%
EBIT	12.0	19.9	↓ 39.6%
NPAT	8.6	13.3	↓ 35.3%
EPS (cps)	5.0	8.0	↓ 35.3%
DPS (cps)	[3.5]	5.0	
LFL sales growth	-4.0%	15.4%	
Gross profit margin	59.3%	62.9%	↓
CODB as % of sales	47.4%	43.8%	↑
EBIT margin	9.7%	16.9%	↓

- Sales revenue growth +5.7% vs pcp
- Gross Profit Margin of 59.3% down from 62.9%
  - FX negative impact 260bp or $3.1m
- CODB as a % of sales of 47.4%
  - Normalised EBIT taking into account one off projects would see CODB at 46.9%
- Resulting in EBIT decline of 39.6%
- EPS has decreased by 35.3%
- Interim dividend declared of [3.5] cents per share

Strong balance sheet

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$ million	1H17	1H16	Change
Trade and Other Receivables	6.9	6.2	↑ 10.9%
Inventories	31.1	29.7	↑ 4.8%
Trade Payables and Provisions	(37.6)	(27.9)	↑ 34.4%
Working Capital	**0.4**	**8.0**	↓ **95.1%**
Cash and equivalents	9.6	7.8	↑ 21.7%
Other assets	109.1	108.2	↑ 0.8%
PP&E	19.8	13.9	↑ 42.4%
Interest bearing liabilities	(41.9)	(41.7)	
Other liabilities	(2.0)	(5.2)	↓ 61.0%
Net assets	**95.0**	**91.0**	↑ **4.5%**

** 1H17 close 1 January 17 / 1H16 close 27 December 2015*

- Working Capital decreased on the corresponding period:
  - Inventory increased c$2.4m pre FX impact on 1H16 to support net 17 new stores
  - FX impact on valuation of period end inventory decreased $1m vs PCP
  - Increase in trade and other payables of $9.6m due to:
    - Extended trading terms
    - Entry into new markets
    - Timing of tax payments
    - Natural increase due to increased inventory, freight and store expenses
- Increased PP&E due to store rollout of 18 new stores and 9 refits/redevelopments
- Comfortable gearing
  - Net debt of $32.2m
  - Net debt / equity of 34%
  - Net debt / LTM EBITDA of 0.6x

Cash flow - strong operating cashflows

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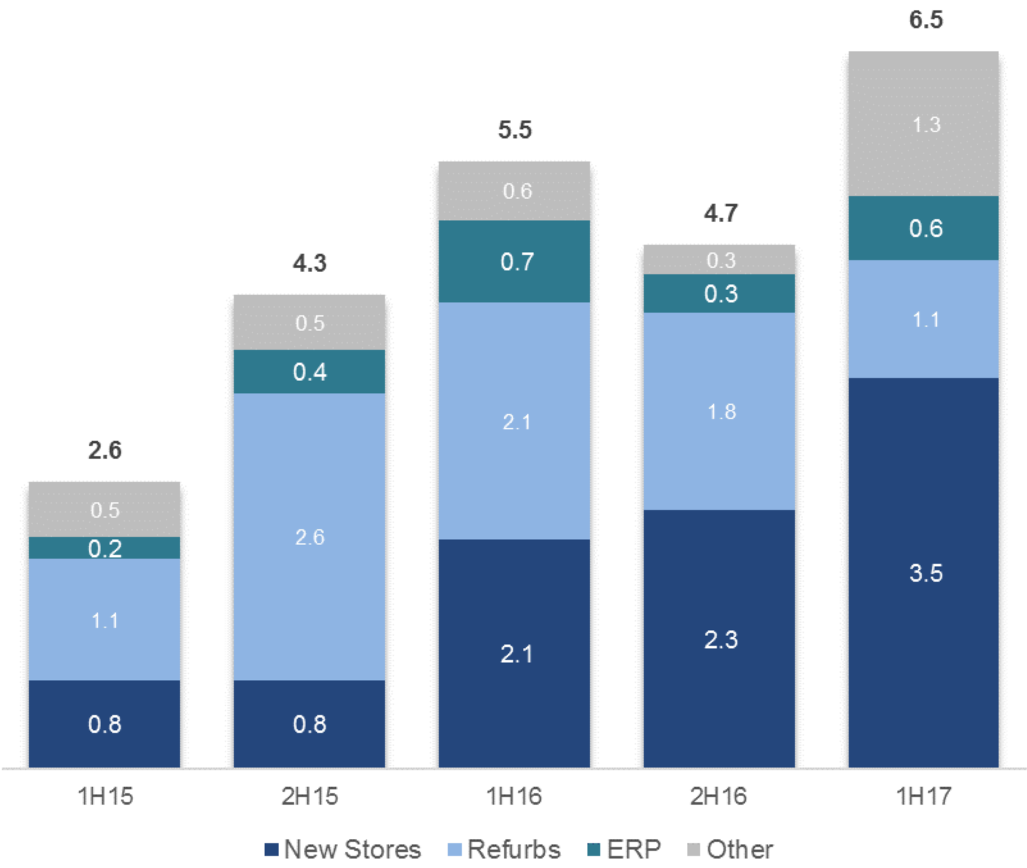
$ million	1H17	1H16
EBITDA	14.8	22.5
Change in Working Capital / Other	8.5	(3.6)
Capex	(6.5)	(5.5)
Net cash flow before financing & investing activities and tax	**16.8**	**13.4**
Restructure & Transaction Costs	-	(7.2)
Dividend Paid	(10.8)	-
Interest	(0.9)	(0.9)
Tax Paid	(10.2)	(6.9)
Net cash flow	**(5.1)**	**(1.6)**

- Strong Cash flow position despite disappointing trading performance with $9.6m cash on hand
- Improvement in working capital obtained through negotiation of supplier trading terms
- $6.5m Capex spend
  - 10 new stores and 5 store refurbishments/relocations in Australia and New Zealand
  - Completion of major projects
- Additional $10.8m paid in dividend compared to prior half
- Additional tax payments due to timing of instalments (which will normalise)

Investing for growth (Capex)

Capital expenditure ($m)



- $6.5m capex compared to $5.5m in 1H16
- 10 new stores opened in 1H17 (8 in Australia and 2 in New Zealand) vs 5 in 1H16
- 4 stores refurbished
  - Continuing to see pleasing results from store refurbishments
  - Remain committed to ongoing investment in existing stores
- Continue to seek opportunities to expand in high performing homemaker centres
- Final phase of significant investment in ERP now complete
- Other spend includes online re-platforming project costs
- 2H Capex expected to reduce with focus on stores

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1H17: Delivering Strategy

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Differentiated and innovative product range

- We have continued to invest in building capability with additional product manager and merchandising manager.

Accelerating Australian multi store format roll out

- Successfully opened 3 Homemaker, 3 Regular and 2 Urban Home Republic stores

Building on Category Range Extension

- Expansion Categories have now grown to 38%
- Increased proportion of our stores that are Homemakers
- Upsized 3 regular stores with 1 converted to “Mini Homemaker” stores

Highly effective Omni channel marketing and online store

- Our online business is growing and becoming an increasingly important component of our business
- We have implemented a new platform to improve capability and metrics
- We have expanded our reach internationally – starting with New Zealand
- Our Linen Lovers customer base continues to grow underpinning our customer relationships

International Omni store expansion in New Zealand

- Two stores now open – both stores trading ahead of company expectations
- New NZ (“.co.nz”) website launched
- 2 new stores committed to open in 2H with opportunity for more

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FY17 Guidance:

Our revised guidance is provided against the backdrop of emerging but inconclusive signs of improved trading, the ongoing implementation of remedial actions, and the prospect of a continued subdued trading environment

	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

(1) Includes costs related to LTIP, NZ launch, POS roll out, and web re-platform

2H17 Outlook

- The continuation of current strategies are still the right direction for the business
- While there are early signs of an improvement in the execution of product, the softer retail environment may extend the time taken to achieve the expected turnaround in LFL sales resulting in a reduction in our guidance

Sales – Guidance reduced to $255m – $265m

- Positively we cycle lower LFL sales growth in 2H (8.7%) than we "chased" in 1H (15.4%)
- Like for like sales over first 7 weeks of trading down 2% in line with our revised expectations
    - Fashion Linen - Over the last 3 weeks as the new season ranges started arriving in store we have seen an improvement and expect this will continue to improve over coming months
    - Whilst sales are improving we are seeing higher than usual volatility across categories.
- Online sales continue to grow underpinned by new platform capability and growing Linen Lover customer database
- Continue to focus on Linen Lovers customer engagement, which provides us with a fast and effective communication channel to showcase our new product as it arrives.

2H17 Outlook

Gross Margin 58.0% - 59.5%:

- Gross Margins held to guidance levels and entering the season with no significant inventory build up
- Entering the 2H with no significant inventory build up
- Currency headwinds are largely neutralised in 2H supported by our current hedge book
    - Approximately 88% of 2H17 purchases covered at USD/AUD 74.7
- Ongoing work with suppliers to obtain further cost price reductions and improved trading terms
- We will continue to manage inventory and take decisive action on slow moving lines as they emerge

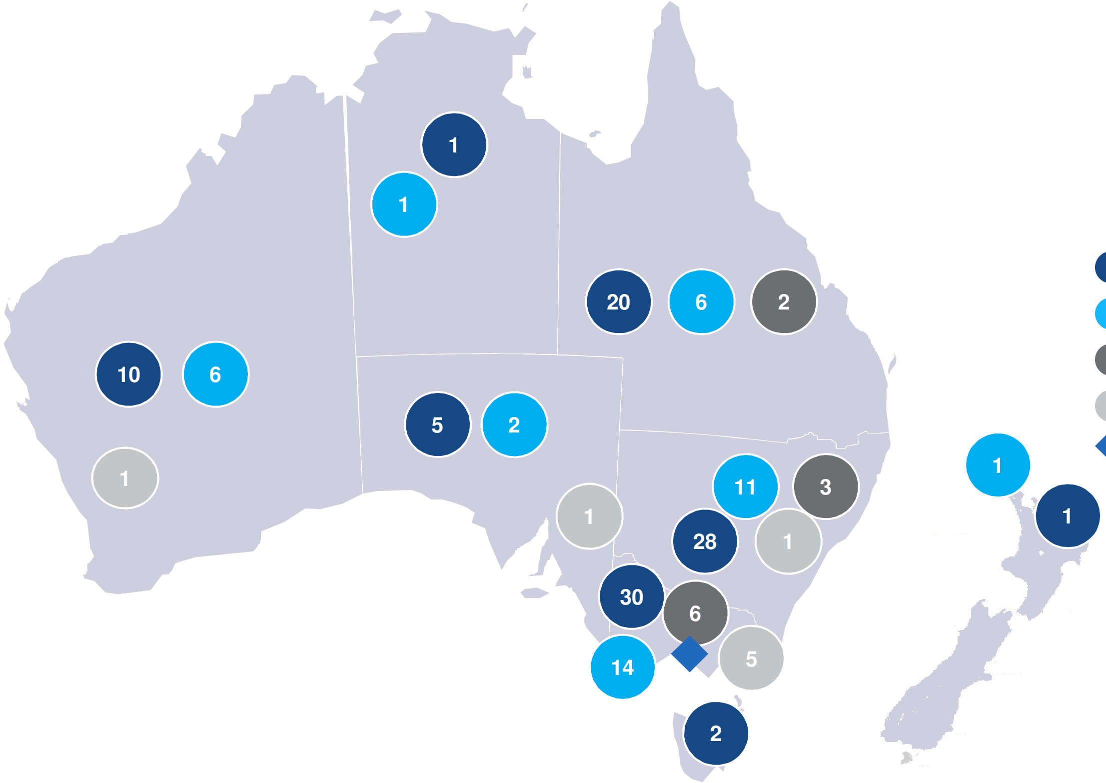
Cost of Doing Business:

- Focus on managing variable costs tightly over the 2H and continue to negotiate store rent terms carefully
- The finalisation of the POS rollout allows us to realise some productivity and efficiency gains
- Business will continue to invest to build internal capability to support on going growth strategies

Questions?


Appendix

Growing store footprint: +10 in 1H17



- 97 - Adairs Stores (incl. Outlet)
- 41 - Homemaker Stores
- 11 - Adairs Kids Stores
- 8 - UHR Stores (inc. 3 Myer concessions)
- DC and HQ

1H17 stores refurbished
Adairs – Victoria Gardens, Warringah Mall, Toowoomba ('Mini Homemaker')
Adairs Homemaker – Kotara

1H17 new stores
Adairs – Launceston, Port Macquarie, Woden
Adairs Homemaker – Darwin, Gepps Cross, Preston
Urban Home Republic – Moonee Ponds, Brighton
New Zealand – Sylvia Park, Bayfair

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