



Release to the Australian Securities Exchange

Adairs rebuilds growth momentum in the second half of FY17

Melbourne, 28 August 2017: Adairs Limited (ASX: ADH) announces its results for the 12 months ended 2 July 2017 (FY17).

FY17 results overview (vs FY16 pro forma)

- Sales up 7.1% to \$265.0 million
 - Like for like sales decline of -1.4% (cycling FY16 growth of +11.7%); with 2H FY17 like for like sales growth of +1.0%
 - 13 new stores opened: 9 in Australia and 4 in New Zealand
- Gross profit up 3.8% to \$156.8 million
- EBIT down 21.5% to \$30.8 million
- NPAT down 19.6% to \$21.0 million
- Comfortable gearing with net debt of \$27.7 million
- FY17 fully franked total dividends of 8 cps (FY16: 11.5 cps fully franked)

Commenting on the FY17 results, Adairs Managing Director & CEO Mark Ronan said:

“The last 12 months saw a tale of two halves. The first half of FY17 was a challenging period, as range issues in some product categories together with a softer than expected Christmas trading period impacting the performance of the business. Over the course of the second half of FY17 we successfully re-balanced our range, largely correcting the issues within some of our key product categories, and stabilised the underlying profitability of the business.

“The improvements in product together with our in-store and promotional execution saw us build sales momentum over the second half in a more challenging retail environment. The second half of FY17 saw the business, excluding the start-up losses in New Zealand, finish with an EBIT result in line with the prior year.

“The two distinct halves can clearly be seen in the performance of like for like sales over FY17. The first half finished down 4.0%, while the second half grew 1.0%. Most pleasingly, the business generated like for like sales growth of 3.8% in the fourth quarter, with a step change in performance over June, as the more balanced product range resonated with our customer. Importantly this momentum has continued into the first eight weeks of this financial year, and while still early in FY18, year to date like for like sales growth is 13%.

“Our retail footprint continues to grow with nine new Australian stores and the first four New Zealand stores opened during the year. All of our new stores are delivering good results and meeting our expectations. We have been particularly pleased with the early results from New Zealand giving us confidence that this will be a successful market for Adairs. Our omni channel strategy continues to build on our growing Linen Lovers membership base and the ongoing investment in our digital platform. Our online channel delivered sales growth of 26%, with online now accounting for 9% of total sales in FY17.”



Actively managing Gross Margin

Over FY17, Adairs' Gross Margin decreased to 59.2% (FY16: 61.0%) due to a declining Australian dollar in the first half together with additional promotional and clearance activity to drive sales and clear underperforming inventory. The current retail conditions make increasing gross margin difficult in the short term and as such the business will continue to work with its suppliers to manage gross margin. The new product that has arrived over the last few months is showing positive signs, giving us confidence that the business can achieve a more stable gross margin in FY18.

Strong Balance Sheet

Adairs' Balance Sheet remains strong. With net debt of \$27.7million (0.75x LTM EBITDA), Adairs is well positioned to pursue its growth strategies.

Reflecting the Company's strong balance sheet, sales growth and outlook, the Board of Directors declared a final dividend of 4.5 cents per share fully franked with a record date of 14 September 2017 and a payment date of 28 September 2017. This brings the total dividend for FY17 to 8 cents per share fully franked.

Positive outlook with renewed growth momentum for FY18

Commenting on Adair's positive outlook for FY18, Mr Ronan said: "The pleasing second half result has positioned the business for growth in FY18. The previous product range issues have been largely addressed and we have seen the business return to like for like sales growth in June. With renewed confidence in our product execution, and continual improvement in our promotional and in store execution, there is improved momentum within the business."

"We have evolved our strategies for the learnings taken from FY17 and will continue our improved execution to deliver sales and more importantly earnings growth. FY18 sales growth will be driven by a return to like for like sales growth, further new store roll outs in Australia and New Zealand, and ongoing growth in our online channel. The sales growth, together with a more stable gross margin rate and the annualised impact of cost savings commenced in FY17, will see our earnings grow in FY18," added Mr Ronan.

As Adairs continues to grow its store footprint, FY18 will see 4-6 stores opened together with up to 6 stores upsized in Australia. Further with brand and consumer awareness strengthening in New Zealand, and the current stores performing to expectations, a further 2 stores are planned for New Zealand in FY18, which will see the New Zealand operation move closer to profitability.



Reflecting the strategic initiatives being pursued the Board of Adairs provides the following guidance for FY18:

	FY18 FORECAST
Year End Stores	166 – 168
Sales (\$m)	285 – 300
Gross Margin %	59% - 60%
EBIT (\$m)	33 – 37
Capital Investment (\$m)	9 – 11

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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