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FY17 Results Presentation

28 August 2017

1. RESULTS OVERVIEW

FY17 Results Overview

Sales growth
- Sales increased by $17.5m (7.1% on FY16)
- LFL Sales for the full year down -1.4%
- LFL strengthened over 2H with Q4 LFL sales +3.8%

Growth from Online channel
- Online sales growth +26% LFL
- Online sales growth of > 40% in 2H
- Equates to 9% of total sales

Gross Profit
- Gross Profit grew by $5.8m (3.8% on FY16)
- Gross Margin rate of 59.2% (61.0% FY16)
- Gross Margin rate stabilised over 2H

EBIT down $8.4m (-21.5% on FY16)
- 1H EBIT down $7.9m (-39.6% on FY16)
- 2H EBIT stabilised: down $0.5m (-2.7% on FY16)

Total full year fully franked dividend 8 cents per share
- Final fully franked dividend of 4.5 cents per share

Variances refer to FY17 compared to pro-forma FY16 reflecting a 52 week period

FY17 Operational Achievements

Growing footprint in Australia

- 9 new stores opened taking total stores to 156
- 5 stores refurbished with 4 of these upsized

Successfully rolled out new POS system across all stores

International expansion commenced with New Zealand

- ERP system enhanced to support international rollout
- 4 stores opened in North Island

Online channel initiatives completed

- Re-platformed the website
- Introduction of Buy Now Pay Later options
- New Zealand website commenced trading

Executive team changes:

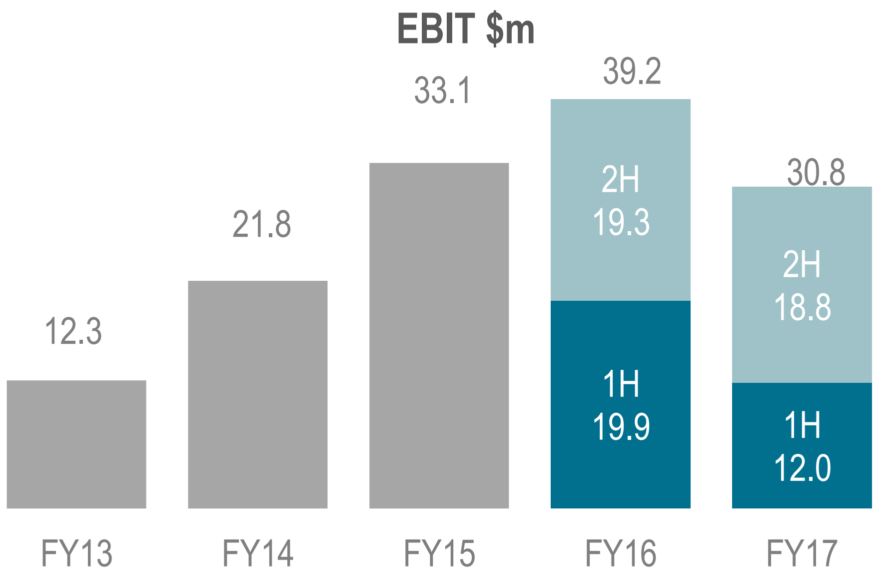
- Mark Ronan transitioned from COO to CEO
- Appointment of Mandy Drake as CFO

2. FINANCIAL RESULTS

Year on Year Result

$ Million	FY17	FY16 ^	$ Change
Sales	265.0	247.4	17.5
Gross Profit	156.8	151.0	5.8
Gross Profit %	*59.2%*	*61.0%*	
CODB	120.1	106.6	(13.5)
CODB %	*45.3%*	*43.1%*	
EBITDA	36.7	44.4	(7.7)
EBITDA %	*13.8%*	*18.0%*	
EBIT	30.8	39.2	(8.4)
EBIT %	*11.6%*	*15.9%*	
NPAT	21.0	26.1	(5.1)
NPAT %	*7.9%*	*10.6%*	
EPS	0.13	0.16	(0.03)

^ FY16 is based on 52 week period (refer to Appendix for more details)

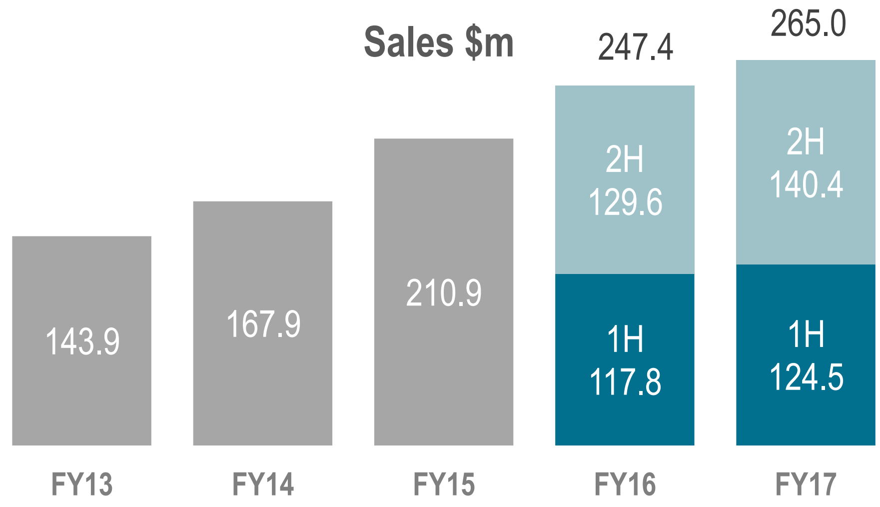


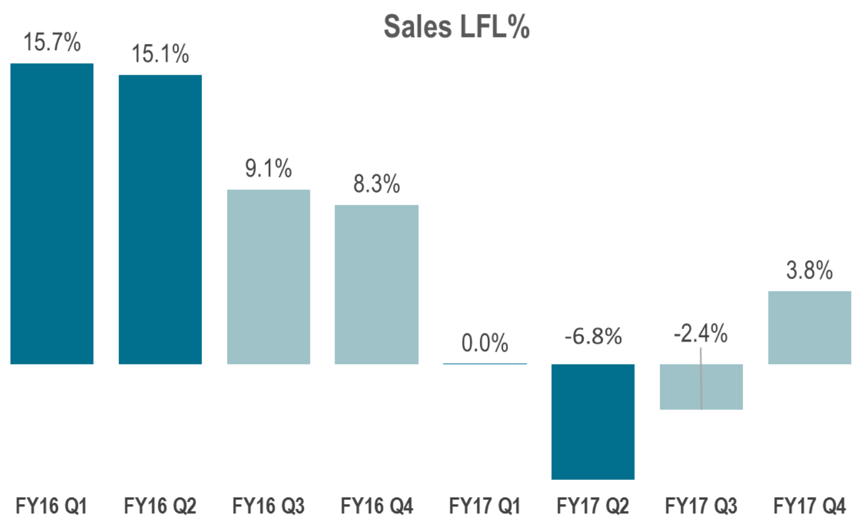
- 1H EBIT down $7.9m due to some poor product ranging and disappointing retail execution
- 2H EBIT down $0.5m
  - 2H EBIT flat on last year after adjusting for impact of New Zealand
  - Result driven by improved product ranging, effective promotions, in-store execution and improvements in online
- New Zealand EBIT loss of $0.8m ahead of the forecast of $1.0m loss

Sales

Sales momentum turns in Q4

- Sales growth achieved from new stores opened and the annualised sales of stores opened during FY16
- Negative LFL sales in the 2nd and 3rd quarters due to some poor product ranging in key categories and disappointing in-store execution
- Higher than usual sales variability witnessed across store formats, geographies, centre types and product categories
- LFL sales of +3.8% achieved in the 4th quarter as product range improved across categories in particular bedlinen and better in-store execution
- Online delivered +26% growth (+41% in 2H) and now accounts for 9% of the overall company sales
- Momentum observed in Q4 has continued into the early stages of FY18

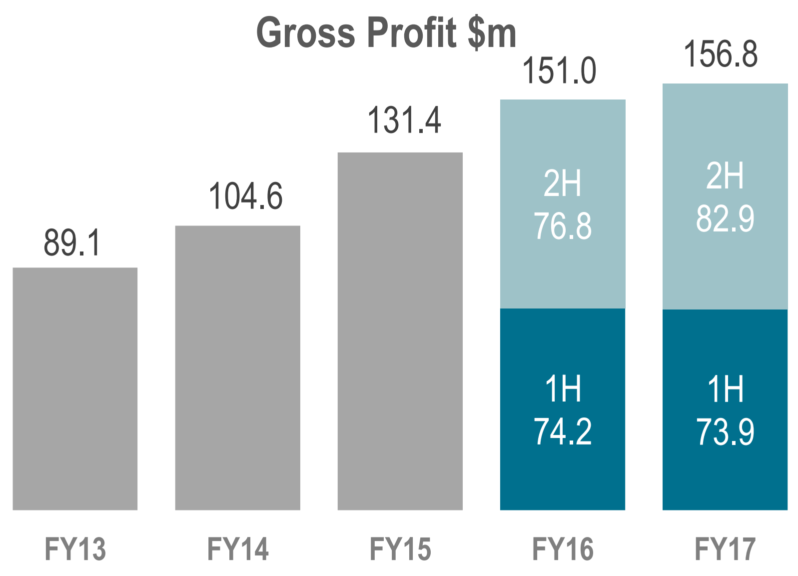


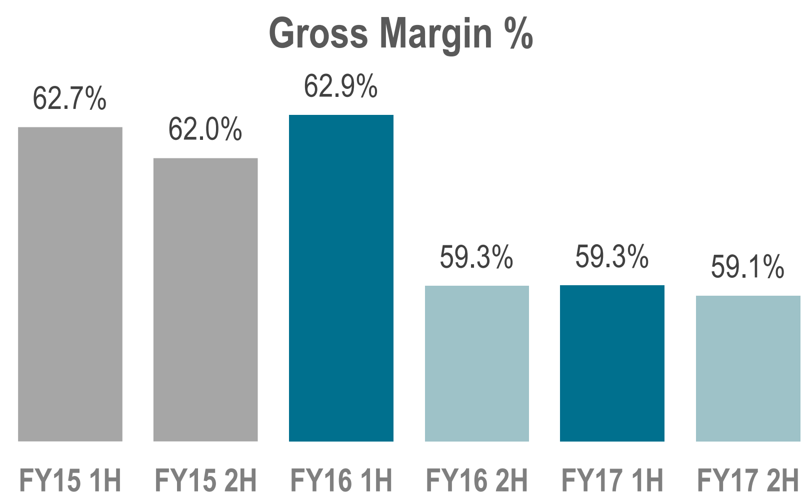


Gross Profit

Gross Margin stabilising

- Gross Profit increased $5.8m (3.8% on FY16)
- Gross Margin down 180 basis points over the year due to:
  - ➢ Impact of additional markdowns and promotional activity undertaken to clear inventory
  - ➢ FX impact of circa -$0.8m from depreciation of AUD with largest impact over 1H
- Margin erosion largely isolated to 1H with 2H relatively stable as product and retail execution improved
- Focusing on margin improvements by managing cost of goods and leveraging relationship with suppliers
- Ability to increase prices limited by more challenging retail environment





CODB

CODB % of Sales	FY17	FY16 ^
Salaries & Employee Expenses	23.4%	23.3%
Occupancy Expenses	13.9%	12.9%
Advertising Expenses	2.4%	2.2%
Other Expenses	5.2%	4.5%
Asset, Property Maintenance	0.4%	0.2%
Total CODB %	**45.3%**	**43.1%**

^ FY16 is based on 52 week period (refer to Appendix for more details)

Operating Leverage Impacting CODB

- Despite negative LFL sales, salaries as a percentage of sales largely remains in line with FY16. Achieved through controlling rosters and lower performance incentives paid across the business
- Occupancy Expenses impacted by annual increases built into store leases
- Increase of 70 bps in Other Expenses is primarily comprised of:
  - Merchant fees, freight/postage and packaging incurred from increased sales in store and online
  - One-off costs of circa $720k incurred in FY17 in association with rollout of POS and start up cost of New Zealand operation

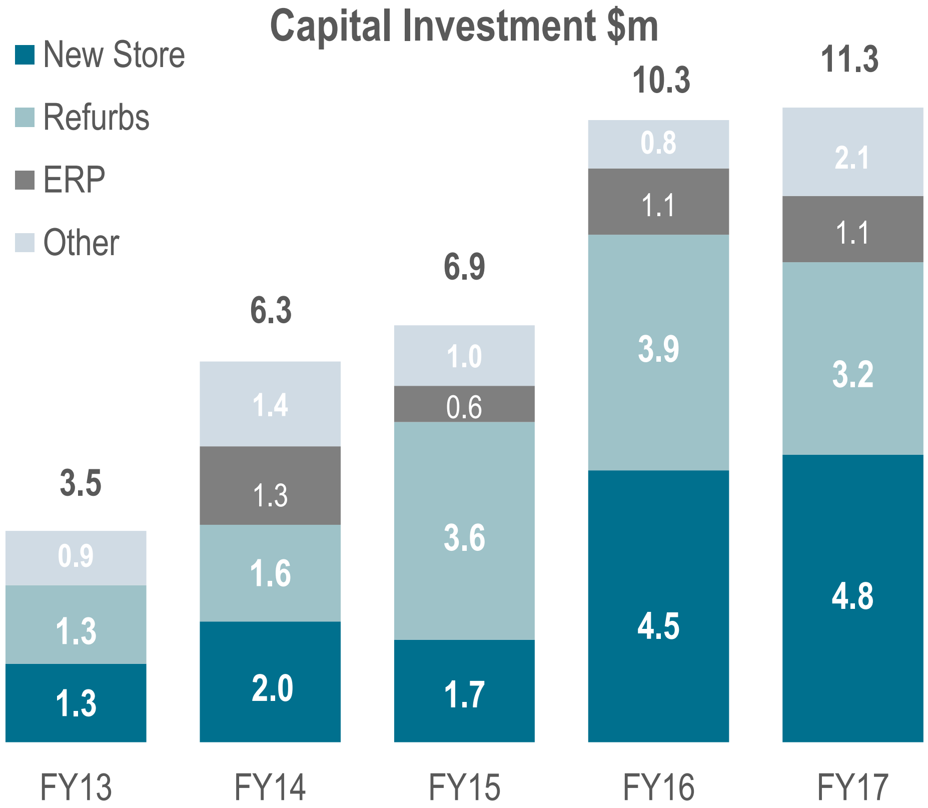
Balance Sheet

$ Million	FY17	FY16
Cash and Cash Equivalents	14.3	14.7
Inventories	33.0	26.3
Plant and Equipment	20.2	16.0
Goodwill and Intangibles	114.7	113.4
Other Assets	10.5	13.3
Total Assets	**192.7**	**183.7**
Payables	26.4	15.4
Borrowings	41.9	41.8
Provisions	10.0	8.6
Other Liabilities	14.1	22.3
Total Liabilities	**92.4**	**88.1**
Net Assets	**100.3**	**95.6**

Well positioned to support growth

- Closing inventory is $6.7m higher than FY16. This reflects 13 new stores, additional inventory to support the NZ operations, and inventory purchased to support July and August trading
- Payables relates to trade creditor increase of $10m as a result of increased inventory and improved supplier terms
- Other Liabilities decreased as a result of reduced tax provisions
- Debt facility of $50m renegotiated during the year with the $8m working capital portion undrawn at year end. We expect core debt drawn to remain at $42m
- Comfortable gearing level of 0.75x Net Debt/EBITDA
- All covenants met with significant headroom

Capital Investment



Investing for growth

- $11.3m invested in FY17 in line with company guidance
- 13 new stores opened across Australia and New Zealand to support growth strategy with sales meeting company expectations
- Targeted store upsizing and refurbishments continues with 5 refurbishments including 4 upsized
- ERP of $1.1m includes POS hardware upgrades and enhancement for New Zealand operations
- Other includes investments in website re-platforming and international online capability

Cash Flow

$ Million	FY17	FY16 ^
EBITDA	**36.7**	**44.4**
Net Working Capital	7.8	(4.4)
Tax Paid	(15.2)	(8.7)
Finance Cost Paid	(1.8)	(1.9)
Operating Cash Flow	**27.5**	**29.4**
Capital Investment	(11.3)	(10.3)
Dividend Paid	(16.6)	(8.3)
Net Cash Flow	**(0.4)**	**10.8**

^ FY16 is based on 52 week period (refer to Appendix for more details)

Strong Cash Management

- Operating cash flow strong
- Net working capital well managed with increased inventory funded by continuation of improved supplier terms
- Tax paid represents $8m FY16 tax and instalments for FY17
- Capital investment in line with guidance as we continue to invest in store growth together with technology and digital initiatives
- FY17 represents first full year of dividend payments
- FY17 final dividend of 4.5 cents per share to be paid in September 2017

3. KEY GROWTH DRIVERS

Key Growth Drivers

Execution key to delivering sustainable growth

FY17 was a disappointing year where delivering on strategic initiatives contributed to some poor execution of the retail basics.

Over 1H17 we completed key projects, opened 8 Australian stores, refurbished 4 stores and commenced trading in New Zealand.

Given the performance of the 1H management focused on key priorities to deliver 2H

- Improving the product offering
- Executing to a detailed product and marketing plan
- Increasing value to the customer and creating better reasons and inspiration to buy now
- Managing the costs of the business

The Way Forward

Based on the learnings from FY17 management has put in place a process to ensure that we can deliver our strategic initiatives whilst growing the underlying business and managing execution risks.

Our key growth drivers for 2018 and beyond are:

- PRODUCT, PRODUCT & PRODUCT
- MORE INSPIRING LARGER STORES
- PASSIONATE HIGH PERFORMING TEAM MEMBERS
- BEST IN CLASS OMNI RETAIL CAPABILITIES
- INTERNATIONAL EXPANSION

Product, Product & Product

Must deliver great product for our customers

- Maintain our focus on delivering great product
  - Key categories of fashion linen, bathroom, cushions and throws are most important as this is what we are famous for
  - Deliver quality product at a compelling value for money proposition
  - Expand into adjacent categories whilst managing risks and evolving merchandising
  - Continue to invest in team within design, development and sourcing
- Merchandise Planning a key component of strategy – continue to evolve the way we create, review and execute merchandise plans
- Creating a balanced range is key to appealing to our broad customer base
- Designing and sourcing our own unique product allows us to control our pricing and promotional strategy

Long term strategy to furnish more of our customers' living, entertaining and functional spaces

Passionate High Performing Team Members

In store service delivers a more engaging experience

Our team remains a key point of difference in retail execution – consistency of service, product and in store experience.

In a survey of general category shoppers[1] Adairs ranked number one for helpful team who are specialists with good product knowledge.

We continue to invest in our higher service model to differentiate Adairs from competitors, including online.

Some of our strategies to enhance the customer experience include:

- Building team product knowledge
- Focusing on service and a great shopping experience
- Consistent retail execution – every store, every day

Service is a key component of our business model that we will continue to invest in

(1) Survey conducted of 1,000 general category shoppers conducted in June 2017.

More Inspiring Larger Stores

Inspiring more engaging experiences in larger stores

Further opportunity exists to improve profitability and drive differentiation by rolling out stores and selectively **'upsizing'** existing Adairs stores.

Importantly larger stores improves the shopping experience and supports the strategy of furnishing more of our customers living spaces.

Store Rollout Strategy

A significant opportunity remains to continue to roll out core format stores over the next 5 years with up to 50 potential locations identified.

Focus on homemakers and strong performing shopping centres and strips with a view to taking larger spaces.

Look to open 6 – 8 net new stores in FY18

Also targeting 6 stores to be 'upsized' in FY18 across both formats

Store Upsizing Strategy

Adairs 'Regular'

- 5 stores upsized. Positive results to date showing that the upsizing has driven increased sales and profit. Store contribution dollars up 15% vs pre upsizing
- Negotiating incremental occupancy cost and delivering store labour economies are the keys.

Adairs 'Homemaker'

- 2 stores upsized. Both upsizing successful to date driving increased sales and profit
- Early results show a bigger benefit in Homemakers (vs Regulars) achieving a higher % of existing sales per square metre on the incremental 'upsized' space

Best In Class Omni Retail Capabilities

Continuing to evolve omni retail capabilities is a key growth driver

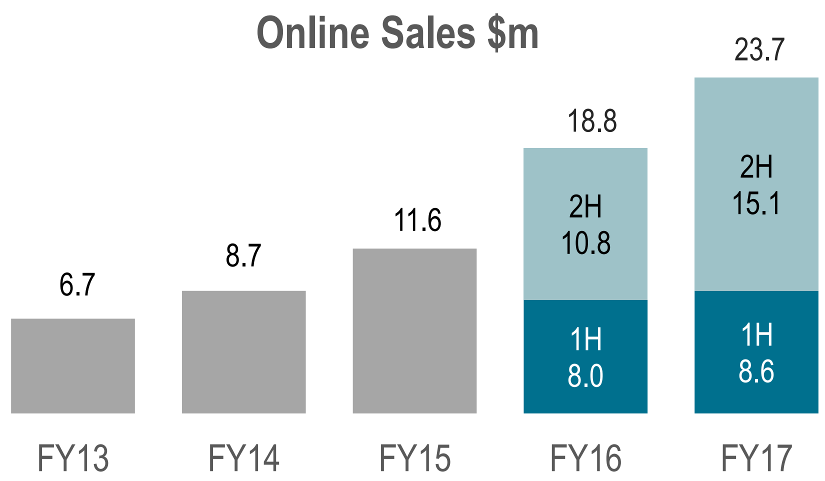
Adairs online channel is both integral to our store operations and customer experience, and a material contributor to our sales and profitability. A key strength of Adairs business that is constantly improving.

- Achieving ongoing strong growth in our Linen Lover database now greater than 500k members

FY17 saw us deliver online improvements via:

- Re-platformed website – enhancing user experience, SEO abilities and customer conversion
- Introduce broader product range including furniture
- Optimised SEM campaign to drive increased ROI and higher conversion rates
- Buy Now Pay Later payment options

Digital marketing and social media initiatives enhance customer engagement levels with a higher propensity of customers browsing online before buying in store.



Key drivers of future online growth:

- Click and collect offering
- Continued investment in user experience to drive customer engagement
- Explore faster and more flexible delivery options
- Growing international territories

Management believe online sales will be greater than 12% of sales by FY19

International Expansion

A positive start to our international expansion opportunities

- Opened 4 stores in New Zealand in FY17 – 3 Homemakers and 1 Regular store
- EBIT loss of $0.8m ahead of $1m forecast loss and includes start up and launch costs
- All stores have traded to or above expectations
- Commenced trading online simultaneously with the first store opening and is running at circa 10% of sales
- Customer feedback has been positive and we are offering the customer a real point of difference
- Ongoing marketing investment to enhance brand awareness
- One new store to open in 1H FY18 with additional stores being considered
- In FY18 we expect New Zealand to approximately breakeven at an EBIT level.

Steady store rollout to underpin New Zealand growth

4. COMPANY OUTLOOK

FY18 Outlook

Strong retail execution to deliver growth in 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

Trading Update

First 8 weeks of trade has seen Q4 trend continue with LFL sales of 13%. Whilst this is a strong start it should be noted:

- First quarter is the smallest quarter of the year
- Management focused on the period leading up to Christmas given changes in sales patterns observed last year

Outlook includes:

- Growth in store network with 6 – 8 stores to open in FY18 including up to 2 in NZ
- Growth in online sales through execution of omni growth strategies and full year benefits of new platform
- LFL sales growth via improved product, effective promotions and in store experience (cycling -4% 1H FY17)
- Full year benefit of FY17 new stores
- New Zealand to breakeven at an EBIT level
- Capital investment of $9 - $11m to support business growth
- A materially improved result in H1 is a key milestone to achieving a strong result in FY18.

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Questions?

Appendix

1. Profit & Loss by half
2. Fashion continues to grow
3. Store footprint
4. Statutory profit to EBIT reconciliation
5. FY13-17 Profit & Loss

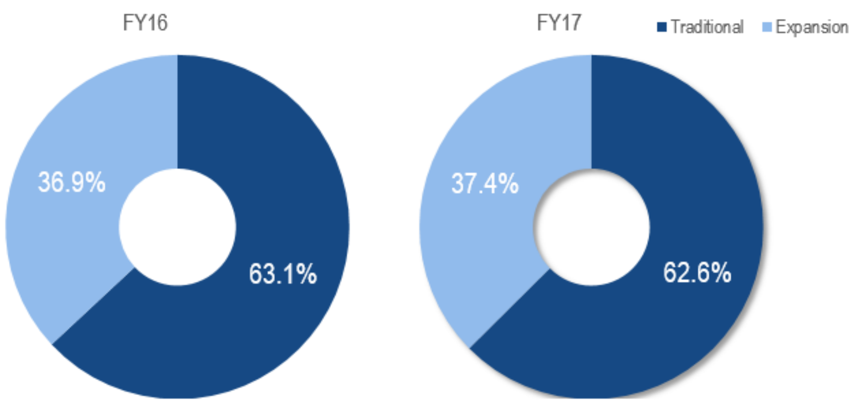
Appendix 1
Profit & Loss by Half

$ Million	FY17 1H	FY16 1H	$ Change to FY16 1H	FY17 2H	FY16 2H ^	$ Change to FY16 2H
Sales	124.5	117.8	6.7	140.4	129.6	10.8
Gross Profit	73.9	74.2	(0.3)	82.9	76.9	6.1
Gross Profit %	59.3%	62.9%		59.1%	59.3%	
CODB	59.1	51.6	(7.4)	61.0	55.0	(6.1)
CODB %	47.4%	43.8%		43.5%	42.4%	
EBITDA	14.8	22.5	(7.7)	21.9	21.9	(0.0)
EBITDA %	11.9%	19.1%		15.6%	16.9%	
EBIT	12.0	19.9	(7.9)	18.8	19.3	(0.5)
EBIT %	9.7%	16.9%		13.4%	14.9%	
NPAT	8.6	13.3	(4.7)	12.4	12.9	(0.5)
NPAT %	6.9%	11.2%		8.9%	9.9%	

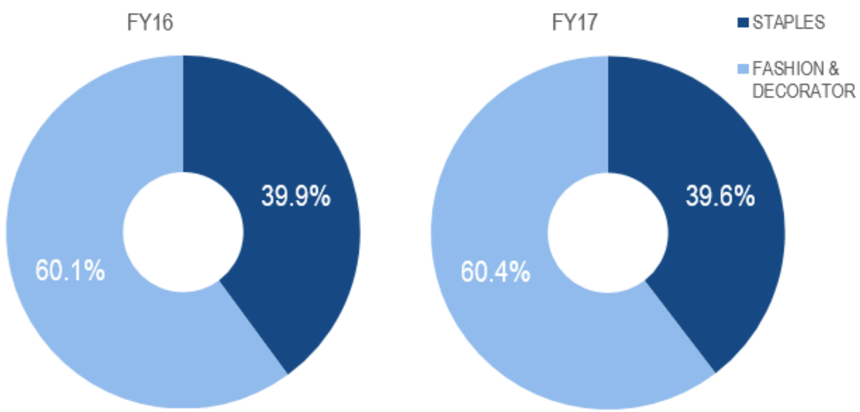
^ FY16 is based on 52 week period (refer to Appendix for more details)

Appendix 2
Fashion continues to grow as % of sales

Expansion vs Traditional Sales Mix%



Fashion & Decorator vs Staples Sales Mix%



Appendix 3
Store Footprint

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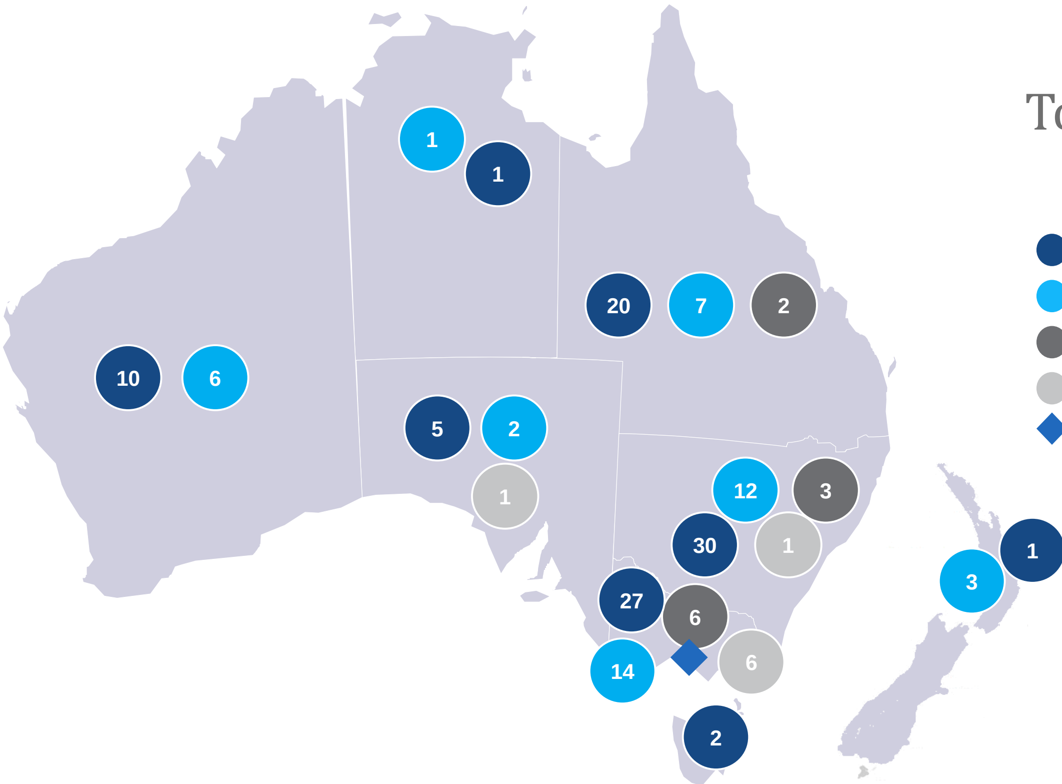

Total Stores: 160 (FY16: 147)

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

FY17 New Stores
Adairs – Launceston, Port Macquarie, Woden, Bayfair (NZ)
Adairs Outlet – Gold Coast DFO
Adairs Homemaker – Darwin, Gepps Cross, Preston, Sylvia Park (NZ), Wellington (NZ), Albany (NZ)
Urban Home Republic – Moonee Ponds, Brighton

FY17 Store Refurbished
Homemaker – Richmond and Sunshine ^
Adairs – Victoria Garden ^, Warringah Mall^ and Toowoomba (mini homemaker)^
^ *upsized as part of the refurbishment*

Appendix 4
Statutory Profit to EBIT reconciliation

	FY17	FY16
Statutory Profit after income tax	21,017	27,172
Add back:		
Finance Expenses	1,946	2,006
Interest Income	(55)	(81)
Income tax expense	7,904	11,651
EBIT	**30,812**	**40,478**

Appendix 5
Profit & Loss FY13 - 17

$ Million	FY13	FY14	FY15	FY16 ^	FY17
Stores	126	128	132	147	160
Sales	143.9	167.9	210.9	247.4	265.0
Store Sales	137.2	159.2	199.3	228.6	241.3
Online Sales	6.7	8.7	11.6	18.8	23.7
Gross Profit	89.1	104.6	131.4	151.0	156.8
Gross Profit %	*61.9%*	*62.3%*	*62.3%*	*61.0%*	*59.2%*
EBIT	12.3	21.8	33.1	39.2	30.8
EBIT %	*8.5%*	*13.0%*	*15.7%*	*15.9%*	*11.6%*
^ FY16 is based on 52 week period					

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Some of the information contained in this presentation contains “forward-looking statements” which may not directly or exclusively relate to historical facts. These forward-looking statements reflect Adairs Limited current intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside the control of Adairs Limited.

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