



Release to the Australian Securities Exchange

Operational focus delivers strong growth across all key metrics

Melbourne, 26 February 2018: Adairs Limited (ASX: ADH) is pleased to announce its results for the twenty-six weeks ended 31st December 2018 (1H FY18) that saw the Company return to growth.

1H FY18 (vs 1H FY17) snapshot:

- Sales up 19.7% to \$149.0 million
 - Like for like sales +14.8% (cycling 1H FY17 -4.0%)
 - Total stores at 164 with 4 new stores, 3 upsized and 2 refurbished
 - Online continuing to grow strongly, with sales up 98.7% to \$17.1 million
- Gross Profit up 22.2% to \$90.3 million
- EBIT up 73% to \$20.9 million
- NPAT up 62.5% to \$13.9 million
- Interim dividend of 5.5 cps fully franked, to be paid on 24 April 2018

Commenting on the 1H FY18 results, Adairs' Managing Director & CEO Mark Ronan said: "Over the first half the team have focused on delivering a fashionable well coordinated product range together with a superior retail experience. Our continued focus on operational excellence has come through in our results with sales up 19.7% to \$149 million, and net profit after tax up 62.5% to \$13.9 million. This half has put Adairs back on a growth trajectory, regaining our sales momentum given our improved product and in store execution.

Whilst we were cycling negative like for like sales in the previous period, the strong growth in like for like sales at nearly 15 per cent was very pleasing. This growth has been driven from increasing transactions from a growing customer base and greater share from our existing Linen Lovers.

Over the half we opened four stores, upsized three stores and refurbished another two stores. We are seeing good results from our upsizing program and we see this alongside our store rollout delivering ongoing growth.

At the same time, our omni channel retail capability continues to be a key growth driver. With our replatformed website enabling us to enhance our user experience, online sales nearly doubled to \$17.1 million and accounted for 11.5% of total sales."

Gross profit up 22.2% to \$90.3 million

Gross profit improved significantly over 1H FY18 reflecting the product and retail execution success. Gross margin increased 130bps to 60.6% driven by the strong performance of the fashion and decorator ranges, tightening of our promotional periods and reduced level of markdowns. The early read on our new season product ranges indicates they are resonating with our customer base giving us renewed confidence that we will maintain growth in gross margin over the second half.



International expansion

The New Zealand stores continue to meet our initial sales expectations showing that we have an opportunity to build a strong business in New Zealand. Our gross margin result was impacted by inventory and supply chain issues resulting in a lower EBIT result than initially forecasted. We expect this will be improved over the second half with a small loss forecast for the full year.

Strong balance sheet, substantial lift in operating cash flow and increasing dividend

Adairs' balance sheet further strengthened over 1H FY18, and its strength supports the Company's domestic and international growth strategy. Net debt reduced from \$32.4 million to \$17 million over the half, with gearing down substantially from 25.4% to 13.7% over the period. Operating cash flow was up 76% to \$21.3 million given the Company's return to growth.

With the balance sheet further strengthened, substantial lift in cash flows and a positive outlook for continued growth, the Board of Directors increased the interim fully franked dividend to 5.5 cents per share, with a record date of 10 April 2018 and a payment date of 24 April 2018.

Continued strong retail execution to deliver further growth in 2H FY18

Over the first seven weeks of 2H FY18, Adairs generated like for like sales growth of 13%, with customers continuing to respond well to the current product range. There is no change to the recently upgraded FY18 guidance:

- Total stores between 166 and 168
- Sales between \$300 million and \$310 million
- Gross margin between 59.5% and 61.5%
- EBIT between \$40 million and \$44 million
- Capital investment between \$9 million and \$11 million

Commenting on the positive outlook for Adairs in 2H FY18, Mr Ronan said: "We expect to generate continued like for like sales growth given our improved product range, effective promotions, and superior in-store experience.

We will look to open three to five new stores over the second half, including up to two in New Zealand. With our larger stores continuing to deliver superior results through showcasing our broader product range we will focus on opening homemaker stores and will look to take advantage of upsizing opportunities.

We are confident that the issues of last year have been resolved. Our focus on excellence in retail execution together with effective management of both the gross profit and cost of doing business will underpin Adairs' continued growth."

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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