



adairs

1H FY18 Results Presentation

February 2018

1. RESULTS OVERVIEW



1H FY18 results overview: Back on track!



LFL sales drives growth

- Sales +19.7% to \$149.0m
- LFL Sales +14.8% (cycling 1H FY17 -4.0%)



Online growing strongly

- Online sales +98.7% to \$17.1m
- Online now accounts for 11.5% of sales



Strong Gross Profit result

- Gross Profit +22.2% to \$90.3m
- Gross Margin rate +130bp to 60.6%



EBIT +73% to \$20.9m

- Operating leverage driving CODB down to 44.4% (47.4% 1H FY17)



Continued growth in store footprint

- 4 new stores, taking total stores to 164
- 5 stores refurbished, 3 of these upsized



Enhanced omni channel shopping experience

- New Customer Special Order system rollout
- In store Buy Now Pay Later implemented



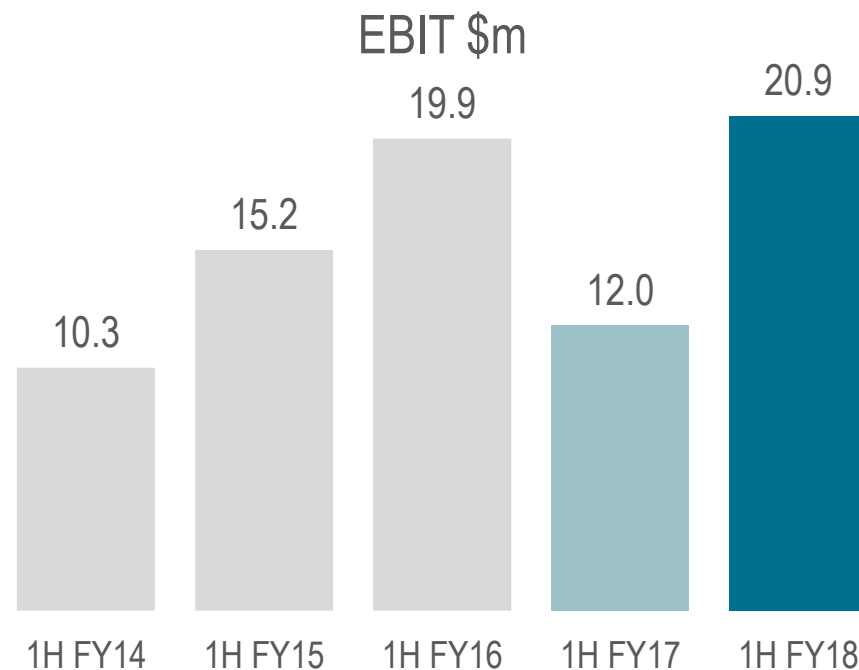
2. FINANCIAL RESULTS



Growth across all P&L metrics



\$ Million	1H FY18	1H FY17	% Change
Sales	149.0	124.5	19.7%
Gross Profit	90.3	73.9	22.3%
Gross Profit %	60.6%	59.3%	
CODB	66.2	59.1	-12.0%
CODB %	44.4%	47.4%	
EBITDA	24.2	14.8	63.4%
EBITDA %	16.2%	11.9%	
EBIT	20.9	12.0	73.3%
EBIT %	14.0%	9.7%	
NPAT	13.9	8.6	62.5%
NPAT %	9.4%	6.9%	
EPS	0.08	0.05	62.5%

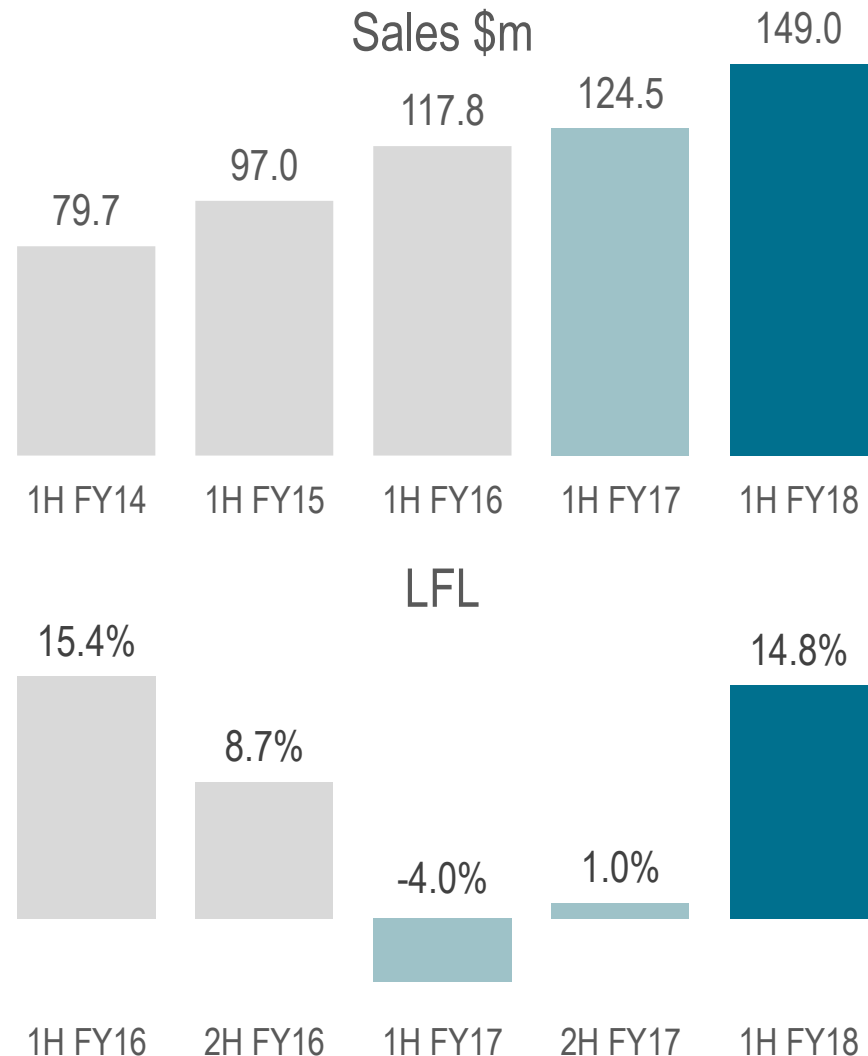


Strong EBIT was driven by

- Bed linen category back on track and performing strongly
- Strong results from growth categories of soft furnishing, home decorator and Adairs kids
- Combined with better in store and online execution of key events

Strong sales momentum

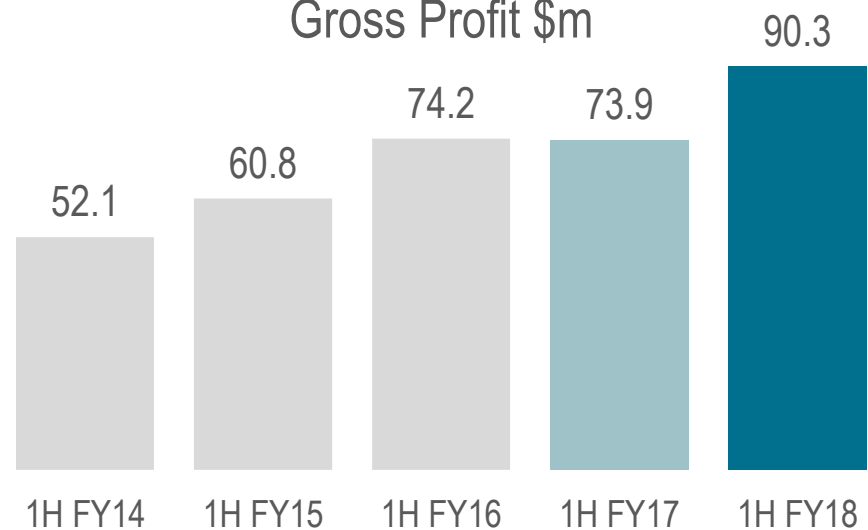
- Strong overall LFL sales achieved in first half across Q1 and Q2 against poor performance in the prior year
- LFL sales of +14.8% delivered through improved product and retail execution driving increased transactions
- Increased transaction count coming from growing customer base and increased frequency of existing customers (increasing market share)
- Strong growth in Linen Lover customer database helping to build brand loyalty and repeat customers
- Online channel delivered +98.7% growth after the re-platforming project completion in October 16; now material to sales and earnings
- Additional sales growth from 7 new stores opened against the pcp



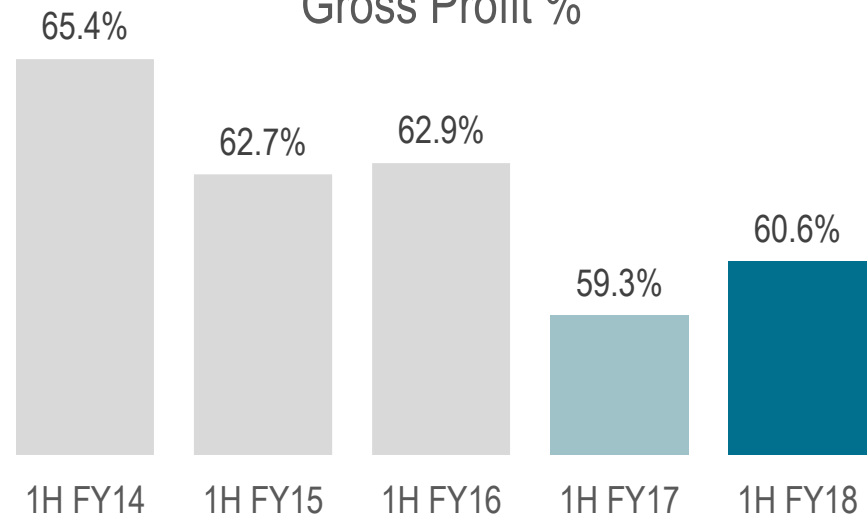
Gross profit continuing to grow

- Gross Profit +22.2% to \$90.3m
- Gross Margin rate up 130 basis points to 60.6% due to:
 - Strong performance of fashion and decorator ranges
 - Promotional price points are competitive
 - Less markdowns and tighter promotional periods required to drive sales
 - FX benefit from stronger AUD/USD rate (\$1.2m variance to 1H FY17)
 - Lower GP% achieved in NZ impacting the overall GP%

Gross Profit \$m



Gross Profit %



CODB shows improved operating leverage

CODB % of Sales	1H FY18	1H FY17
Salaries & Employee Expenses	23.4%	24.7%
Occupancy Expenses	13.3%	14.5%
Advertising Expenses	2.3%	2.5%
Other Expenses	5.3%	5.5%
Asset and Property Maintenance	0.2%	0.2%
Total CODB%	44.4%	47.4%

CODB in absolute terms grew by \$7.1m v 1H FY17

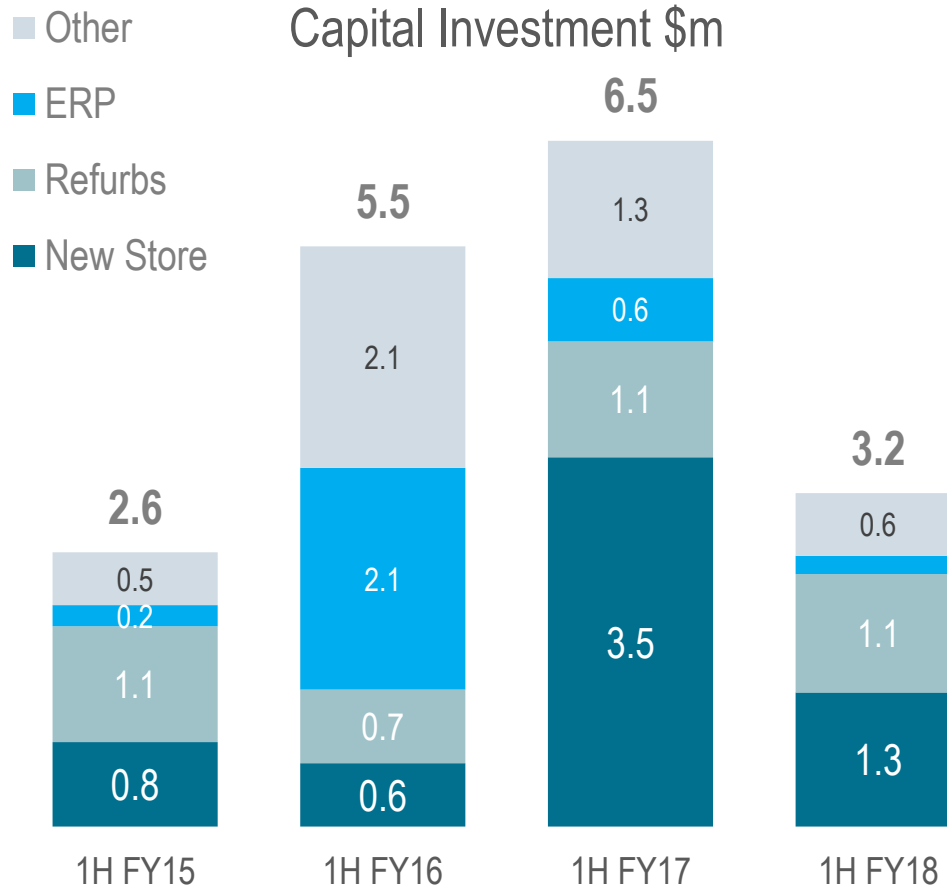
- Salaries as percentage of sales remain well controlled
 - We continue to maintain our investment in store salaries. We also incurred higher incentives for store team than 1H FY17 as a result of the strong sales performance
- Achieving rent reductions as leases are renewed, particularly in centres that are not driving increased traffic
- Other expenses as a percentage of sales are slightly lower however increased \$1.0m from 1H FY17 driven by
 - Higher merchant fees incurred from BNPL offering both stores and online
 - Higher freight/postage costs incurred from increasing store and online sales volumes

Strong Balance Sheet supports growth

\$ Million	Dec-17	Dec-16
Cash and Cash Equivalents	13.0	9.6
Inventories	32.9	31.1
Plant and Equipment	20.2	19.8
Goodwill and Intangibles	114.5	113.0
Other Assets	14.1	15.0
Total Assets	194.6	188.4
Payables	37.8	31.6
Borrowings	30.0	42.0
Provisions	6.0	6.0
Other Liabilities	13.9	13.9
Total Liabilities	87.7	93.4
Net Assets	107.0	95.0

- Strong closing cash of \$13m with free cash utilised to pay down debt
- Closing inventory well managed despite strong growth of sales and opening of new stores
- Continuous investment in Plant and Equipment to ensure sustainable sales growth
- Payables increased due to
 - GST deferred
 - Growth in customer deposits
 - Higher team incentives
- Borrowings reduced by \$12m to \$30m
 - \$20m headroom available under the current facility
 - Facility is expected to be redrawn to support the business in 2H
- Improved gearing ratio ⁽¹⁾ of 13.7% (Dec 16: 25.4%)

Capital Investment



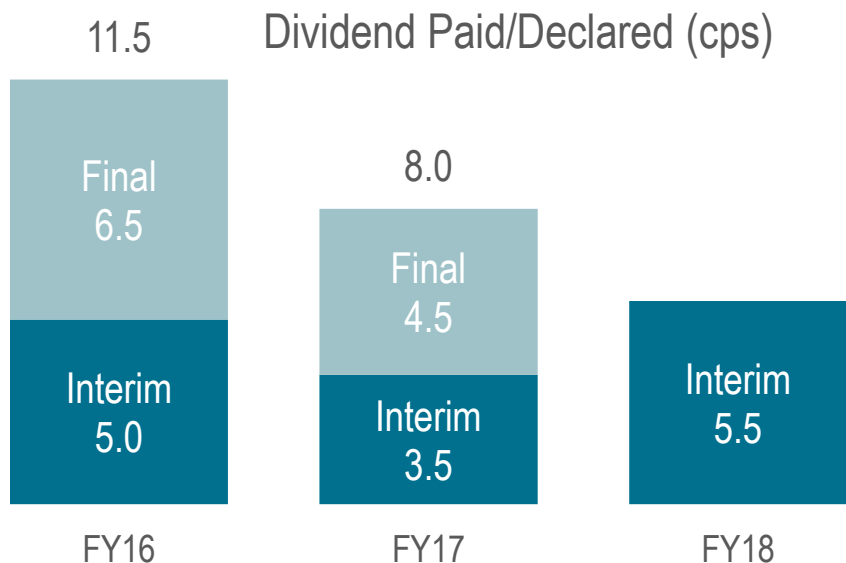
Investing for growth

- 4 new stores opened in 1H
- 5 stores refurbished with 3 of them upsized
- Other includes upgrade of computer equipment, DC equipment and small fixtures in store
- 2H Capex investment expected to be \$6m – \$8m which includes
 - New stores, store refurbishment and upsizing
 - Investment in store traffic counter installation
 - Click and Collect project
 - And ongoing investments in online to accommodate increased traffic and enhance browsing experience from all devices

Strong growth in operating Cash Flow and Dividends

\$ Million	1H FY18	1H FY17
Operating Cash Flow	21.3	12.1
Investment Cash Flow	(3.1)	(6.5)
Financing Cash Flow	(19.5)	(10.8)
Net Cash Flow	(1.3)	(5.1)
Net Debt	(17.0)	(32.4)

- Strong growth in operating cash flow, up 76% to \$21.3m
- Capital investment below LY due to major projects delivered in the 1H of LY
- Financing cash flow movement represents
 - \$12m repayment due to strong cash conversion
 - \$3m lower dividend payout from LY
- Net debt at end of 1H was \$17m vs \$32.4m LY
- Net debt/LTM EBITDA of <0.4x



FY18 fully franked interim dividend of 5.5 cents per share to be paid on 24 April 2018

3. KEY GROWTH DRIVERS



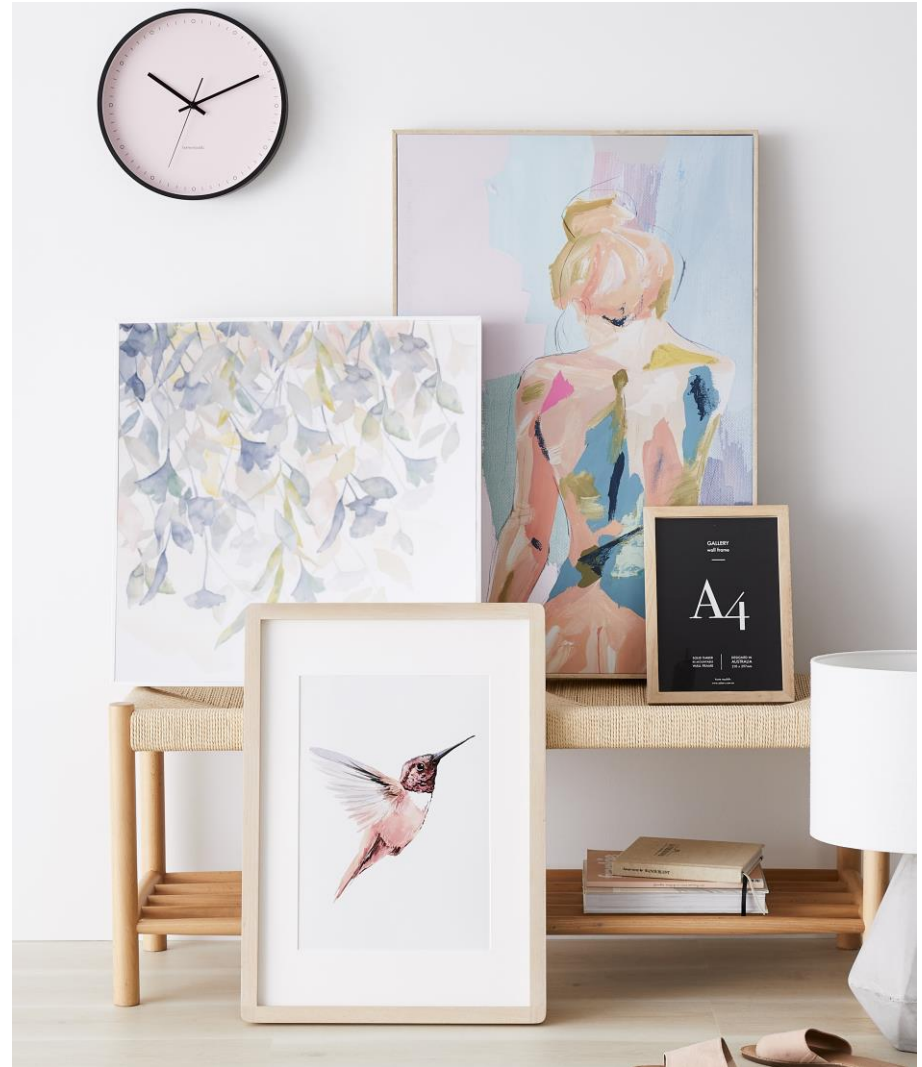
Key growth drivers

Product, Product & Product	<p>Long term strategy is to furnish more of our customers' home</p> <ul style="list-style-type: none"> • Maintain focus on delivering great product through investment in team and in house design, development and planning capabilities • Continue to evolve and strengthen our process of creating, reviewing and executing our merchandise plans
More Inspiring Larger Stores	<p>Inspiring more engaging experiences in larger stores</p> <ul style="list-style-type: none"> • Maintain focus on opening homemaker and larger regular stores • Positive results coming from early stages of upsized stores • Selectively take opportunities to upsize stores in high performing locations
Passionate High Performing Team Members	<p>Service is a key differentiator of our business that we will continue to invest in</p> <ul style="list-style-type: none"> • Team product knowledge and selling skills • Consistent retail execution – every store, every day • Delivering a more engaging customer experience
International Expansion	<p>New Zealand remains our focus for the next 12 months</p> <ul style="list-style-type: none"> • Continue to rollout stores with a focus on homemaker format • Ongoing investment in marketing and loyalty • Improving our international merchandise and supply chain processes <p>Further expansion via online anticipated in the 2H of the year</p>
Best in Class Omni Retail Capabilities	<p>Continuing to invest and elevate our omni channel capabilities</p> <ul style="list-style-type: none"> • Continued investment in user experience to drive customer engagement • Click and Collect offering • Explore faster and more flexible delivery options

Store footprint

Growing store footprint across Australia and New Zealand

- New stores opened
 - Uni Hill (Outlet)
 - Melbourne Central
 - Greenhills
 - Hamilton (NZ)
- The current retail environment provided opportunities to cost effectively upsize stores
 - Coffs Harbour
 - Greensborough
 - Chermside
- Our track record of opening/refitting stores that deliver high ROI remain strong



New Zealand rollout progressing

As part of Adairs International expansion strategy, New Zealand is undergoing continuous improvements in its operations

- Product range and mix is resonating with the NZ customer with sales in line with managements expectations
- 3 Homemaker stores opened since 1H FY17
 - Wellington (March 17)
 - Albany (June 17)
 - Hamilton (October 17)
- Gross margin impacted by markdown and clearance of slow moving lines
- Improved inventory allocation and stock management in place
- New Zealand EBIT loss 1H FY18 is slightly higher than expected however performance continues to improve in 2H
- First store on the South Island planned to open in 2H

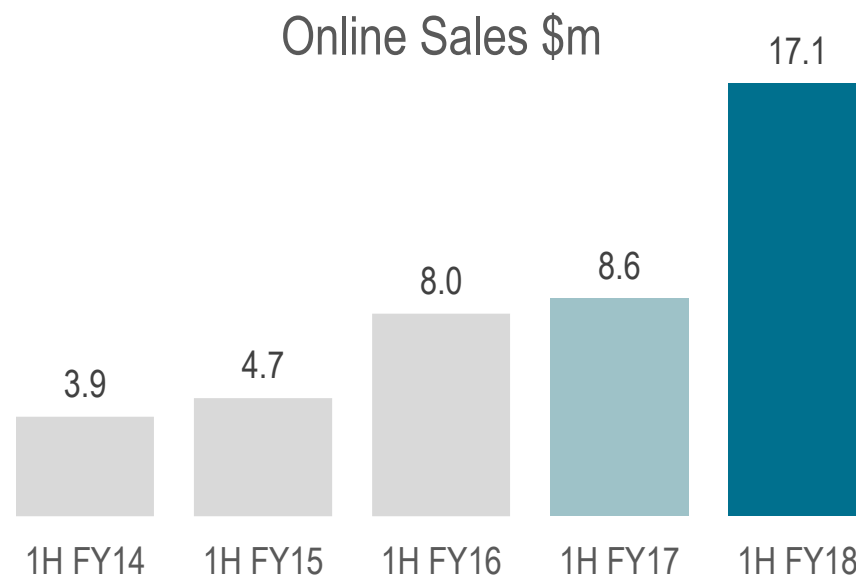


Evolving our omni retail capabilities as a key growth driver

A very strong half with sales up 98.7% and well positioned to continue to drive growth over 2H

Growth being driven by:

- Capitalising on the re-platformed website – enhanced user experience, SEO abilities and customer conversion
- Continuing to broaden online product range
- Optimised SEM campaign driving increased ROI and higher conversion rates
- Use of social media and other marketing initiatives to drive increased traffic to site
- Buy Now Pay Later payment options
- Linen Lover customer database growing strongly. Increasing customer engagement remains a key management focus



Online Sales 11.5% of sales in 1H18

Adairs online channel is integral to our store operations and customer experience, and a material contributor to our sales and profitability.

4. COMPANY OUTLOOK



FY18 Outlook

Continued Strong Retail Execution to Deliver Growth 2H FY18

	FY18 FORECAST
Year End Stores	166 – 168
Sales (\$m)	300 - 310
Gross Margin %	59.5% - 61.5%
EBIT (\$m)	40.0 – 44.0
Capital Investment (\$m)	9 – 11

Full Year Trading Update

- No change to FY18 full year outlook per above

2H Trading Update

- In the 7 weeks of 2H to date, LFL sales growth is 13.0%
- Our customer is responding well to our current range

Outlook includes:

- Growth in store network with a further 3 – 5 stores to open in FY18 including up to 2 in NZ
- Continued growth in online although moderating from 1H
- LFL sales growth via improved product, effective promotions and superior in store experience (cycling +1.0% 2H FY18)
- Full year benefit of FY17 new stores
- New Zealand is expected to report a small loss in FY18 as a result of clearance activity in 1H however 2H improving
- Approximately 65% of the 2H purchases have been hedged at an average AUD/USD rate of 77 cents
- Capital investment of \$9 - 11m to support business growth
- Expect FY18 DPS to be 11.0-12.0 cents

QUESTIONS ?

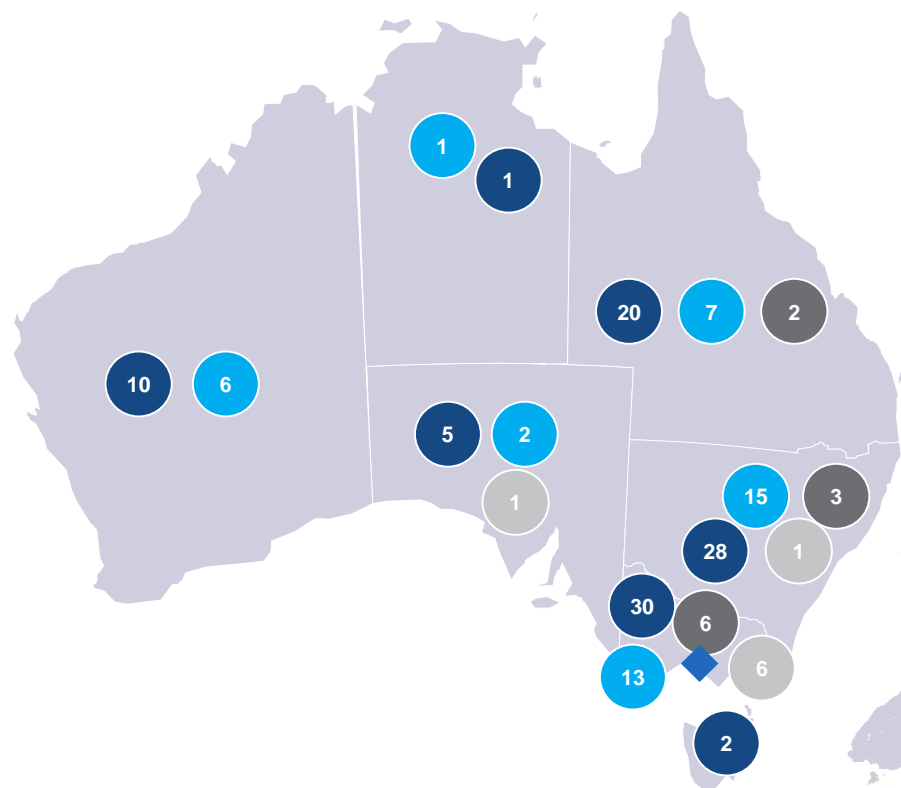


APPENDIX

1. Store footprint
2. Sales LFL History
3. Statutory profit to EBIT reconciliation



Appendix 1 Store Footprint



Total Stores: 164 (FY17: 160)

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

1H FY18 New Stores

Adairs – Melbourne Central, Greenhills

Adairs Outlet – Uni Hill

Adairs Homemaker – Hamilton (NZ)

1H FY18 Store Refurbished

Homemaker – Coffs Harbour

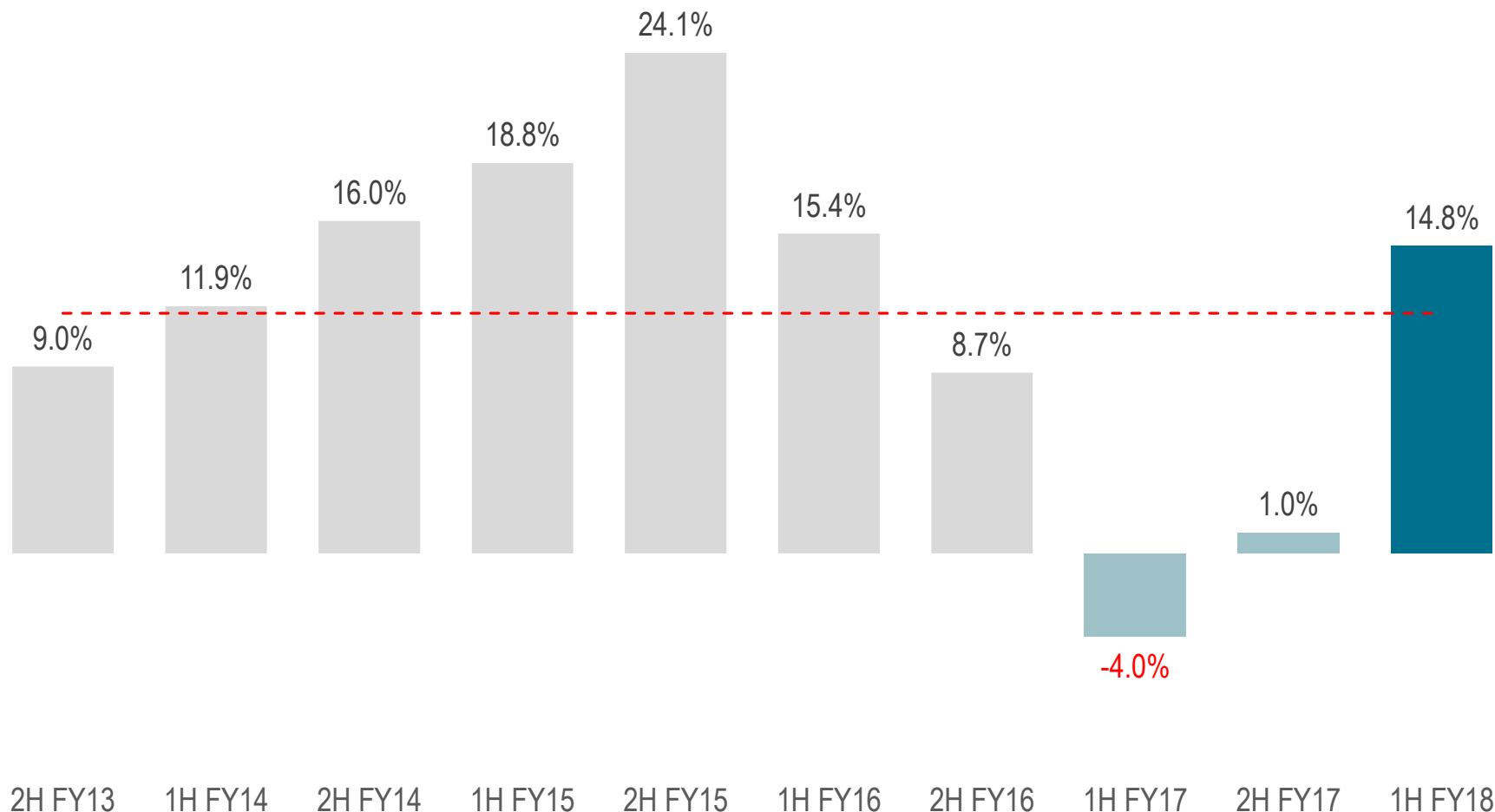
Adairs – Hawthorn, Chermside, Greensborough, Westlakes

Appendix 2

Adairs Sales LFL History



Adairs LFL Sales Growth Last 5 Years
(5 year aveage of +11.6%)



Appendix 3

Statutory Profit to EBIT/EBITDA reconciliation



	1H FY18	1H FY17
Statutory Profit After Income Tax	13,940	8,580
<i>Add back:</i>		
Finance Expenses	816	937
Interest Income	(19)	
Income tax expense	6,142	2,530
EBIT	20,880	12,048
Depreciation	3,300	2,751
EBITDA	24,180	14,799

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.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in the forward-looking statements include known and unknown risks. Because actual results could differ materially from Adairs Limited’s current intentions, plans, expectations, assumptions and beliefs about the future, you are urged to view all forward-looking statements contained herein with caution.

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