



Adairs

Investor Day May 2018

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Objectives of Today

Help our investors better understand management's views on the key drivers to Adairs' sales growth, and what that means for our future...

Offer our perspective on a range of key business drivers:

- **A recap:** our strategy
- **Adairs performance:** key outcomes
- **Market:** structure and management observations
- **Product:** the importance of differentiation and role of category expansion
- **Stores:** our focus on opening larger more inspiring stores
- **Omni channel:** our approach and the results
- **Linen Lovers:** the importance of our loyalty program
- **2018 Outlook:** recap of recently upgraded guidance



Recap: Our Strategies

Product, Product, Product

develop design led on-trend quality products with focus on delivering value and category expansion

More inspiring larger stores

store rollout and selective store upsizing

Best in class omni channel retail capabilities

continual development and enhancement of our online capabilities

Passionate high performing team members

invest in customer service and team knowledge

International expansion

focus on NZ before expanding into other territories

While our strategy is unchanged, the tactics, execution and focus areas evolve as the market and competitive dynamics change.

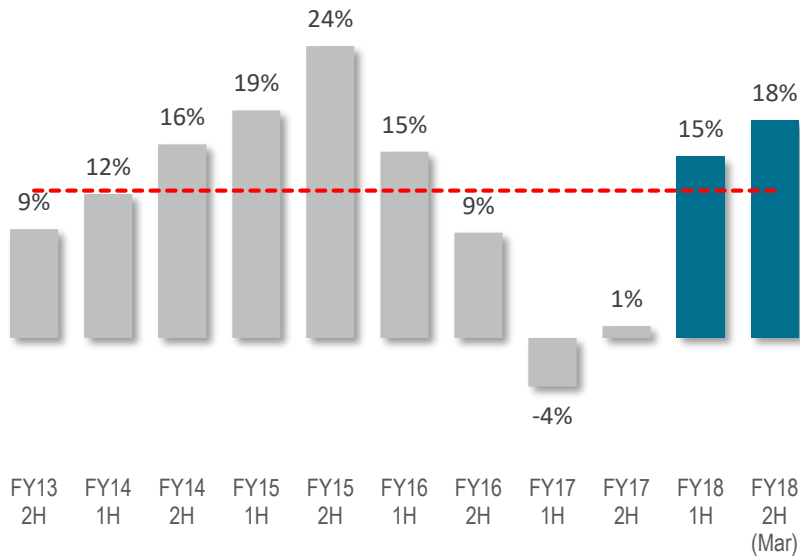
We have accelerated strategies around people, value, systems and infrastructure as we seek to further develop our competitive advantage.

We believe our results demonstrates that our strategies can continue to deliver strong results.

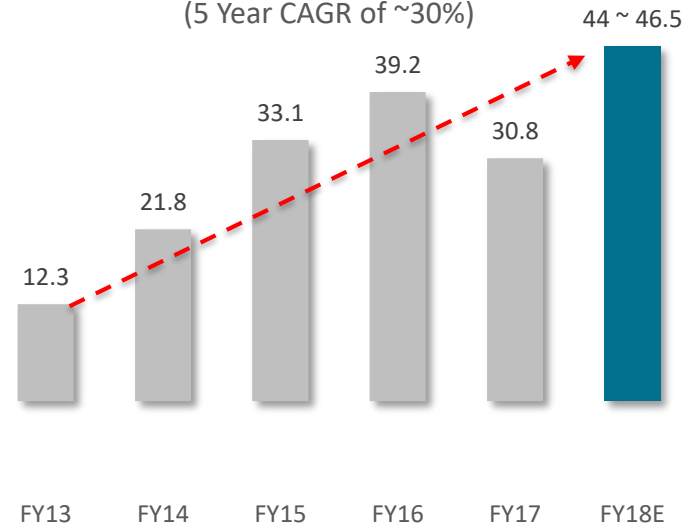


Our Performance – key trends

Adairs LFL Sales Growth
(5 year average of ~11%)



Adairs EBIT Result
(5 Year CAGR of ~30%)





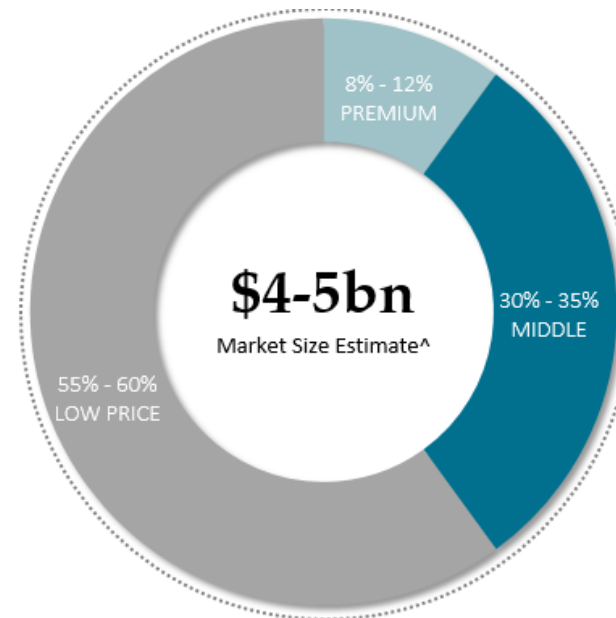
Market at a Glance: \$4~5bn

- Estimate that the market is \$4~5bn and growing at 2~4% p.a
- Made up of 3 segments:
 - Premium includes Sheridan and David Jones. Prices circa 1.5 – 3X higher than the Middle
 - Middle includes Adairs, other specialty retailers and Myer. Prices circa 2 – 4X higher than Low Price
 - Low Price largely consist of discount department stores with a focus on volume at a price
 - International and pure play online have a relatively small share across the various segments
 - Market split by segment and share moves over time based on consumer confidence and performance of key retailers
- Adairs has gained approximately 20% of the middle segment
- Online channel is gaining share of category. We believe Adairs has a larger share online than in physical stores.
- Online / social has increased customer price awareness, sophistication and research capacity.

Premium: Sheridan | David Jones

Middle: Adairs | Bed Bath & Table | Myer | Country Road

Low Price: Kmart | Target | BigW | IKEA | Spotlight



[^] Based on mgt estimates. Boundaries are difficult to define. We exclude carpet, electrical, curtains, blinds, flooring, furniture, beds, tabletop.



Adairs Market

Our sub-segment is large and competitive. Customers cross shop. Successful differentiation requires a keen understanding of the customer and a passion to meet their needs.

Our Main Competitors are:

- Myer
 - David Jones
 - Sheridan / Country Road
 - Bed Bath & Table
 - My House
 - Pillowtalk
 - Pottery Barn / West Elm / Zara Home
 - Freedom / Harvey Norman / Domayne
 - Temple & Webster
-
- Spotlight / IKEA / Harris Scarfe
 - Online Deals - Kogan / Catch
 - DDS (Kmart, Target, BigW)

Our Customer is:

- A member of our Linen Lover program
- Female 25- 65 with a family (children may have left home)
- House-proud entertainer
- Regards her home as an important reflection of herself
- Middle – upper income (decile 5-10)
- Knows her style, but it evolves with trends and seasons
- Seeks quality and has any eye for value
- Typically not a first home owner or renter
- 2nd or 3rd home owner
- Has primary responsibility for home styling
- Social media engaged and mobile
- Shops online & in store



Product, Product, Product

Adairs is a commercial business with a broad customer base. We offer on-trend home decorator products to complement our range of quality staples.

PRODUCT DIFFERENTIATION

- Key to our competitive advantage especially from our middle market and online competitors
- Our ranges are innovative and exclusive to Adairs
- Balancing and coordinating our fashion/staple ranges is critical to our business model
- Continue to extend our range to new and relevant categories
- Our range coordination, merchandising and service in store looks to inspire our customers intentions for their home

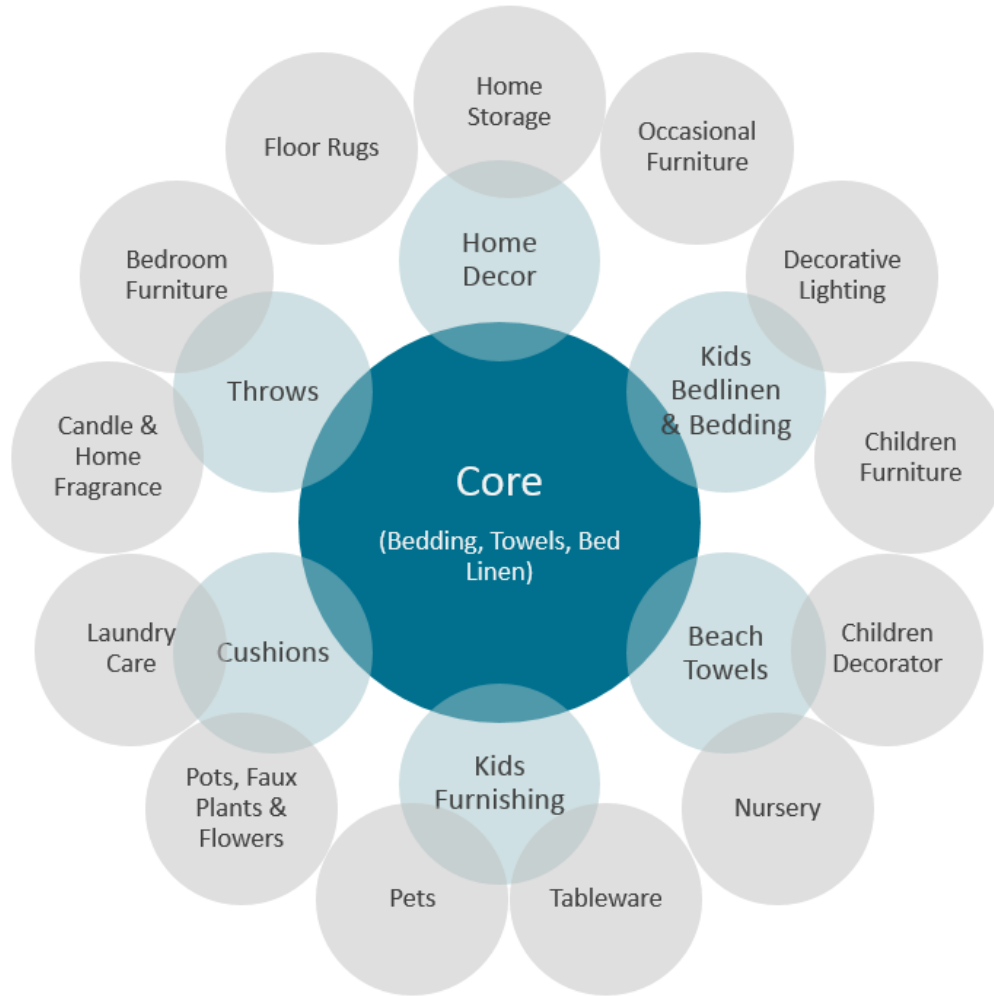
VALUE

- Value is about balancing quality, fashion, design and price as against our competitors
- Look to design deliver and price our product that increases value and inspires customers
- Our Linen Lover program is a key element of how we deliver value.

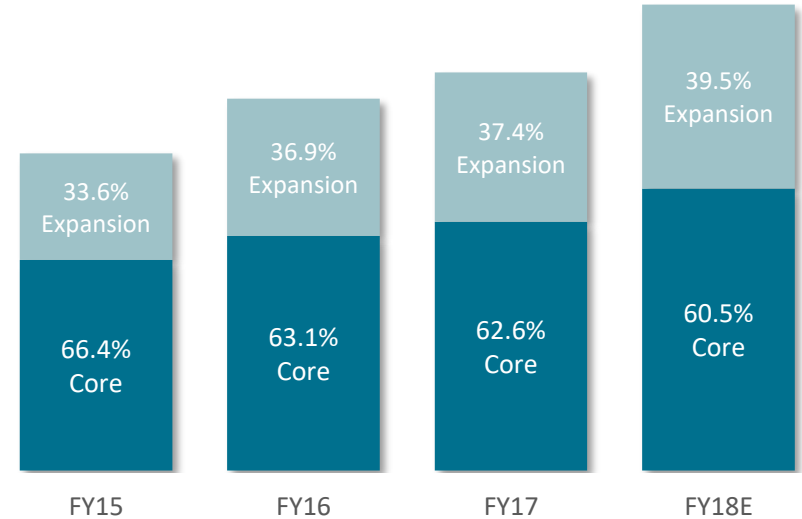
Competition becomes more acute if we compromise on design, newness, value or quality. We continue to invest in our sourcing and design capabilities to maintain our differentiation and competitive advantage.

Enhanced Product Range

Adairs has expanded its product range materially over the last 5 years, and this remains a core strategy



Adairs Product Mix%



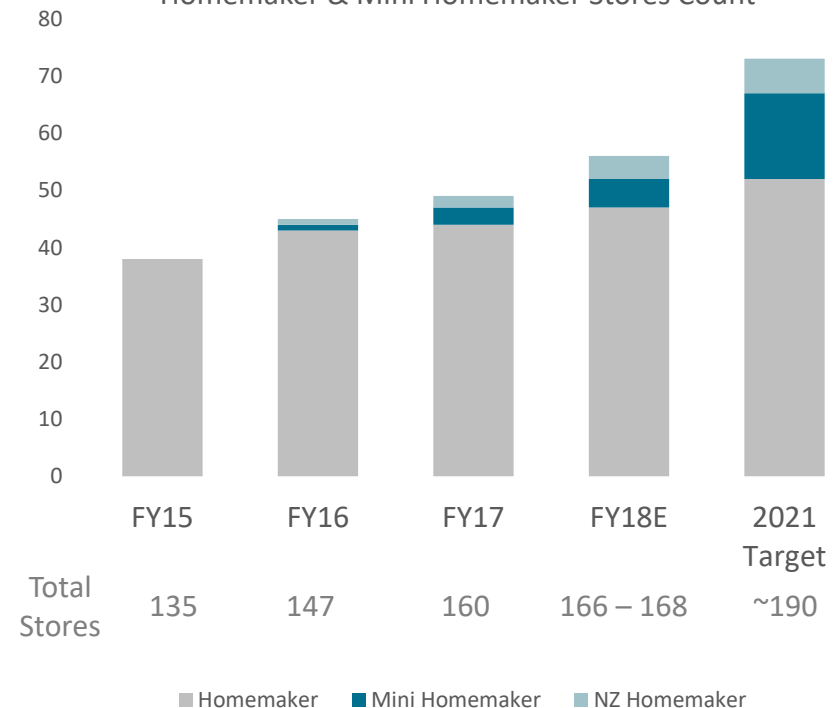
- Long term strategy to furnish more of our customers' living, entertaining and functional spaces
- This strategy is inextricably linked to the success of our Homemaker store format and our strategy to increase the average size of our stores
- Successfully expanded into new adjacent categories, while managing risks and evolving the in store merchandising
- We extend into categories where we believe we can leverage our core competencies and most importantly differentiate our product offering
- Expansion categories 3 year CAGR of circa 20%
- Increased the availability of products ranged online



More inspiring larger stores

- Larger store formats improves the shopping experience and supports the strategy of furnishing more of our customers living spaces
- Store roll out, and selectively upsizing shopping centre and smaller homemaker stores is delivering additional growth and profitability
- Homemaker stores are typically between 600-1,000m² in homemaker centres or standalone sites. On average they generate a higher store contribution margin (% and \$) due to enhanced operating metrics
- We have 43 homemaker in Australia stores, 4 in NZ and 5 mini homemaker stores (400-600m² in shopping centres). Collectively these stores contribute 43% of our total sales.
- We are observing a shift in market share in our category from shopping centres to homemaker centres
- Shopping centre stores continue to be selectively rolled out with good results. As we roll these out we are looking to increase the average size from 150m² towards 220m² to enable us to showcase the broader home furnishings offering.
- In Australia we expect to open 7 – 10 stores per annum over the next 3 years, with a bias to the larger formats.

Homemaker & Mini Homemaker Stores Count





Higher returns from upsizing

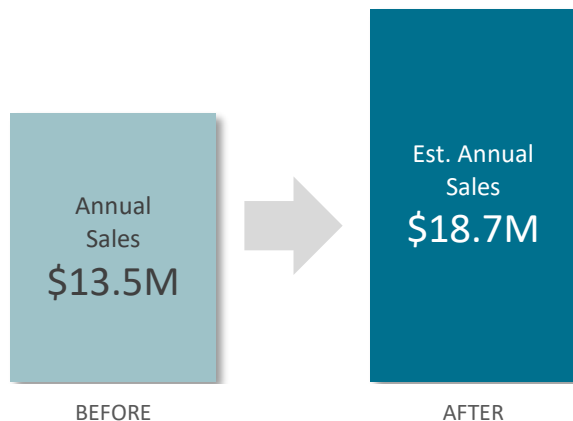
We are focusing on increasing the footprint of our stores. This includes larger shopping centre and homemaker stores and the introduction of mini homemakers. Mini homemakers are typically conversions/ relocations of shopping centre stores in existing centres. These larger stores allow us to offer a materially wider range of product, in a curated environment, with more zoning and more showcasing of 'looks'.

Our experience to date has seen the upsized stores on track to deliver:

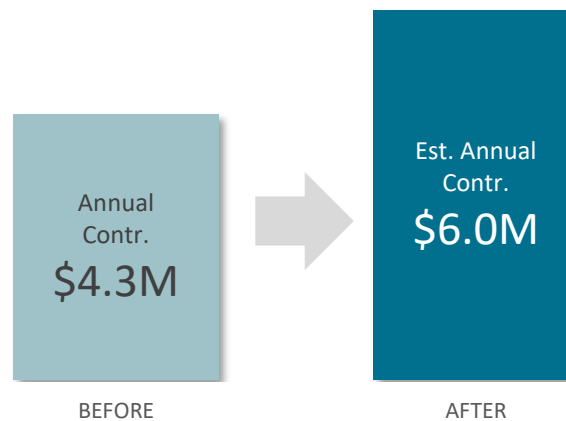
- Estimated annual sales increase of \$5.2m (38.5%) and store contribution dollars of \$1.7m (39.5%)
- Store contribution margin % has been maintained

Management have identified a further 15 stores as upside opportunities over next 3-5 years

Sales Growth



Contribution Growth



^ Data based on 8 completed stores representing 103% increase in lettable area

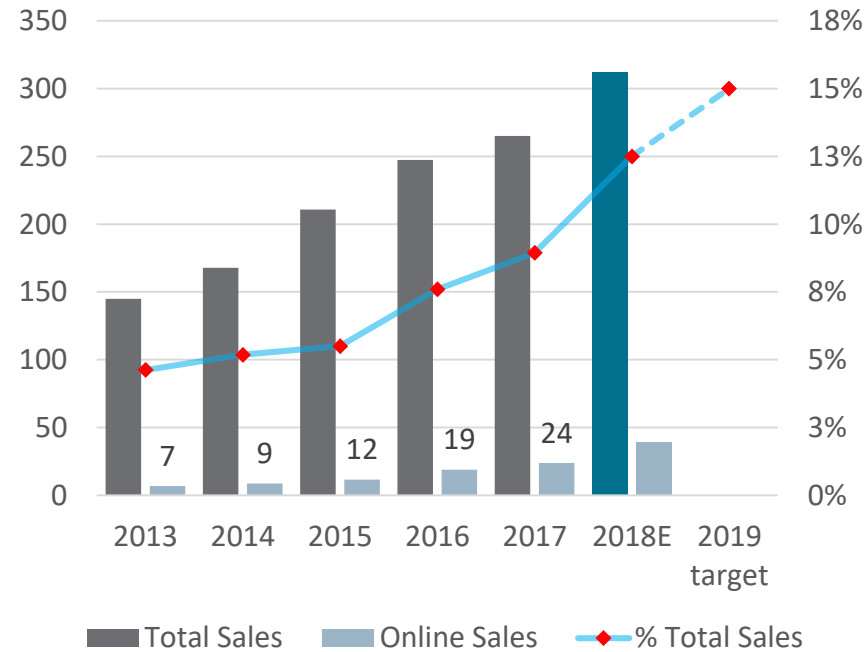


Our Online Result

Online sales are now ~13% of total company sales and expected to reach ~15% in FY19.

Given the size of online and its strong contribution margin this is a material contributor to our underlying profit.

Online Sales and % Mix



- Growth delivered via investment in the online channel, through new platform, resources within SEO and SEM, user experience and social media.
- Expect ongoing investment to continue to drive growth in this important channel.

Our Omni Channel Approach

The role of our webstore is much more than sales generation/execution. It is an integral component of our business, and a key engagement point with our customers....

Grow our online store

- Expand our overall product range
- Have more of our range available online
- Increasing the personalised shopping experience
- Flawless operations and communications
- Excellent service, incl faster delivery
- Increase online only lines

Drive traffic to Adairs stores

- Digital channels are our primary form of advertising and communications
- Digital customer acquisition
- Provide customers an excellent research and planning tool, including store finding
- Target and personalise CRM driven digital marketing
- Targeted digital advertising

Deliver a seamless omni channel experience

- Most online customers are an omni channel shopper
- Buy anywhere, fulfil anywhere, return anywhere is our goal
- Informative content
- Same core values imbedded in our offer across all channels
- Endless isle available in store since 2011

Build Adairs brand

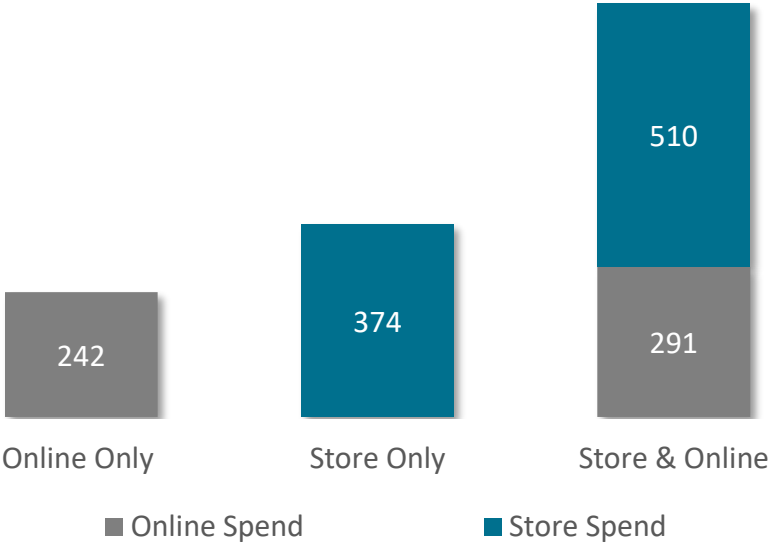
- Digital is a 'flagship' store
- Build brand awareness
- Represent the brand and what we stand for
- Drive customer engagement via Linen Lovers and social media
- Enable customers to explore and discover the range
- Combine fashion and staple items



Our Omni Approach

- Our 'multi-channel' customer is more engaged and more valuable to Adairs
- We appear to get a materially higher share of her wallet in our category
- She shops more often at Adairs and spends more overall and in each channel
- Customer loyalty loop is stronger with a customer who shops 'multi channel'
- Online is an important customer acquisition channel with 50% of online sales to Linen Lovers and growing

Per Active Member Annual Spend (\$)





Loyalty Program – Linen Lovers Club

Members Benefits

Everyday discount
Free online delivery
Exclusive products, offers and events

Membership fee

\$19.95

for 2 years is “paid for”

650,000+

members

Member numbers and store sales correlate strongly

Member shop **OMNI** channel

>70%

Of our total company
sales

Member base growing

15-20%

annually



1.5-2X

Higher spend per
transaction than
non member

&

4-5X

purchases p.a. on average

Provides a deeper insight of
what she wants and expects

She is open to inspiration,
likes to explore, linger and
add an extra item or two if
inspires

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

Enables more targeted,
personalized content and
marketing

Our Linen Lovers customer loves home furnishings and loves Adairs!





2018 Financial Outlook

Year End Stores	166 – 168
Sales (\$m)	310 – 315
Gross Margin%	60% - 61%
EBIT (\$m)	44.0 – 46.5
Capital Investment (\$m)	7 – 9



Questions?



Disclaimer

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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.