

# Adairs FY18 Investor Presentation

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# 1. RESULTS OVERVIEW







# Record Sales and Profit Result

## LFL sales drives growth

Sales +19% to \$315m

LFL sales +14.3% (cycling -1.4% FY17)

## Online growing substantially

Online is now a material contributor to earnings growth

Online sales +75% to \$42m

Online accounts for 13% of total sales

## Strong gross profit result

Gross profit +21% to \$190m

Gross margin rate +110bp to 60.3%

## EBIT +46.7% to \$45.3m

Record EBIT result for the business

Effective cost control and operating leverage reducing CODB to 43.7% (45.3% FY17)

## Strong operating cash flow

Net debt reduction of \$15.4m to \$12.2m

## Growing EPS and Dividends

Earnings per share up 45% to 18.4 cents

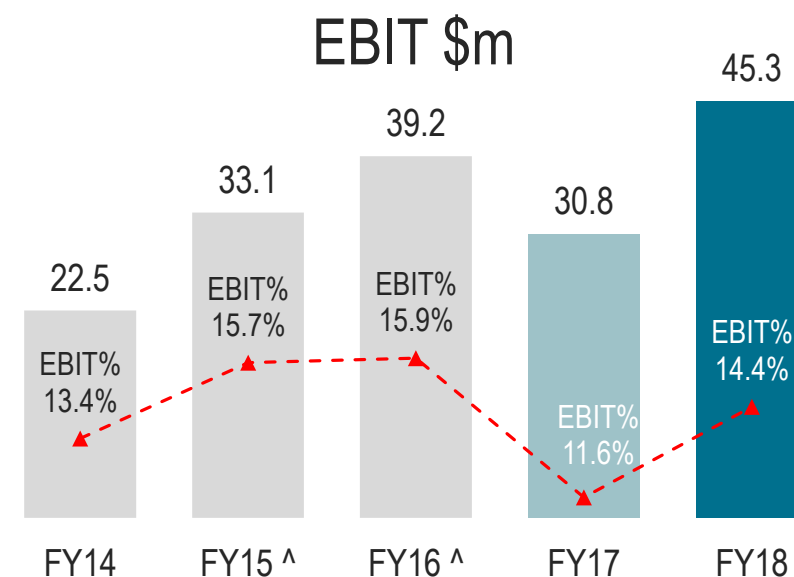
Full year fully franked dividends up 68.8% to 13.5 cents

## 2. FINANCIAL RESULTS



# Growth across all P&L metrics

(\$ Million)	FY18	FY17	Change
<b>Sales</b>	<b>314.8</b>	<b>265.0</b>	18.8%
<b>Gross Profit</b>	<b>189.6</b>	<b>156.8</b>	20.9%
Gross Profit %	60.3%	59.2%	
<b>CODB</b>	<b>137.6</b>	<b>120.1</b>	14.5%
CODB %	43.7%	45.3%	
<b>EBITDA</b>	<b>52.1</b>	<b>36.7</b>	42.0%
EBITDA %	16.5%	13.8%	
<b>EBIT</b>	<b>45.3</b>	<b>30.8</b>	46.9%
EBIT %	14.4%	11.6%	
<b>NPAT</b>	<b>30.6</b>	<b>21.0</b>	45.4%
<b>EPS (cps)</b>	<b>18.4</b>	<b>12.7</b>	45.4%

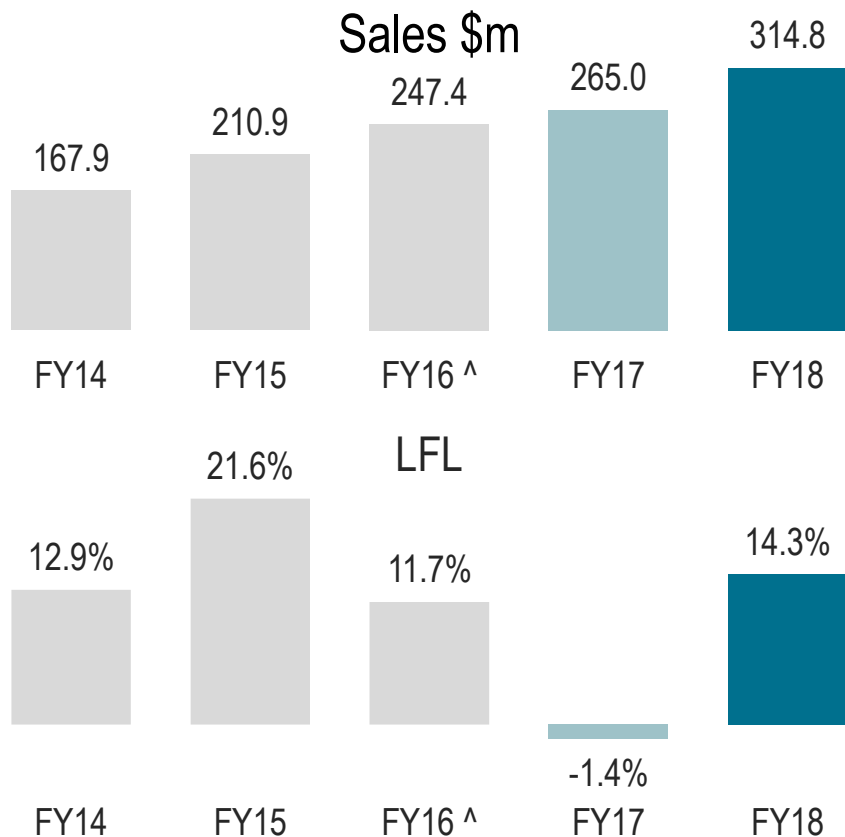


^ FY15 & FY16 are pro forma (refer to Appendix 3)

## Strong EBIT Result – Business Back on Track

- ▶ Like for like sales growth of +14.3%
- ▶ Successful execution of key events both in store and online
- ▶ Sales growth from new and upsized stores
- ▶ Improved gross profit margin driven by stronger product offering
- ▶ Operating costs remain well controlled as increased sales reduces CODB%





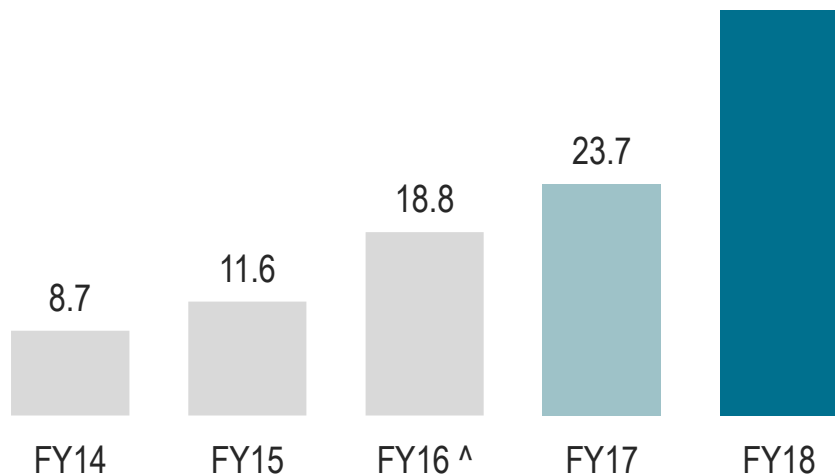
^ FY16 is pro forma based on 52 week year

## Strong sales momentum across all channels

- ▶ LFL sales of +14.3% achieved through continued focus on product and retail execution (+13.8% 2H18)
- ▶ Online delivering 75% LFL growth and now contributing 13% of total sales (9% FY17)
- ▶ New and upsized stores performing well
- ▶ Sales driven by well executed product range across core categories complemented by growth in our expansion categories in particular home décor, furniture and soft furnishings
- ▶ Sales growth coming from increased transaction volume. More customers choosing to shop with Adairs and existing customers shopping more frequently



## Online Sales \$m



^ FY16 is pro forma based on 52 week year

## Online delivers strong sales growth

- ▶ Online delivered 75% LFL growth and contributed 13% of total sales (9% FY17)
- ▶ Improvement in key online metrics, more traffic to the site, improved conversion rate and maintained average transaction value
- ▶ Growth delivered by leveraging recent investments including the new site, improvements to user experience as well as Search Engine Optimisation and Marketing
- ▶ Strong social media penetration improving customer engagement and delivering more site traffic
- ▶ Improved marketing execution around photography, email campaigns and site performance combined with our stronger product offering improving conversion rates

Traffic

**38% ▲**

Increase

Conversion Rate

**24% ▲**

Increase

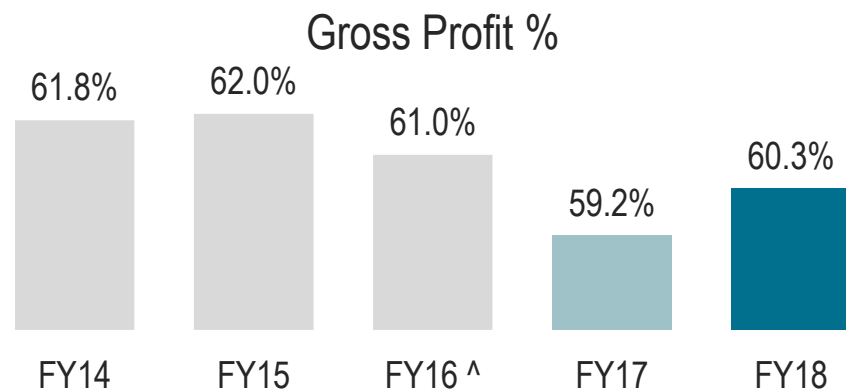
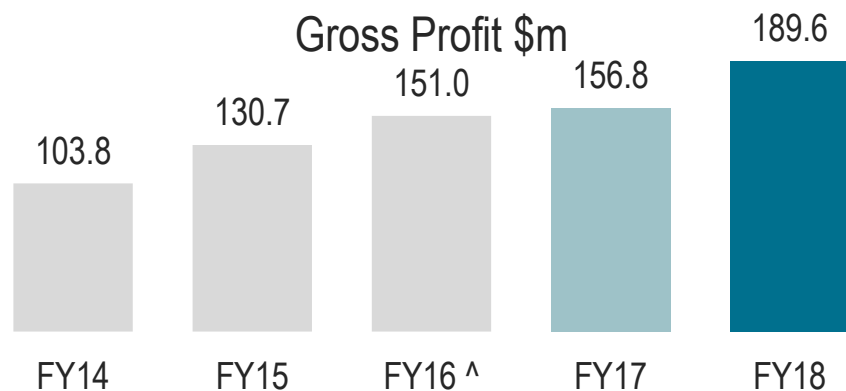
Avg Trans Value

**1.2% ▲**

Increase

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^ FY16 is pro forma based on 52 week year

## Gross profit margins improving

Gross profit increased +20.9% to \$189.6m

Gross margin up 110 basis points to 60.3% attributed to

- ▶ Improved product offering
- ▶ Reduced frequency and depth of discounting throughout the year
- ▶ Expansion categories contributing collectively higher margins
- ▶ Cost price reductions achieved on some core lines as volumes grow
- ▶ Gross profit further assisted by favorable AUD/USD position relative to FY17



# CODB - Improved operating leverage

(\$ Million)	FY18	FY17	Change
Salaries & Employee Benefits	22.8%	23.4%	0.6%
Occupancy Expenses	12.7%	13.9%	1.2%
Advertising Expenses	2.4%	2.4%	0.0%
Other Expenses	5.8%	5.6%	-0.2%
<b>Total CODB %</b>	<b>43.7%</b>	<b>45.3%</b>	<b>1.6%</b>
<b>Total CODB \$</b>	<b>137.6</b>	<b>120.1</b>	<b>17.4</b>

## CODB % improvement of 160bp achieved

- ▶ Salaries as percentage of sales reduced by 60bp
  - In Stores we achieved operating leverage as salaries were well controlled on a growing sales base whilst maintaining our service levels
  - In Customer Support we invested in additional team to support the sales growth particularly in design, digital and supply chain
- ▶ Occupancy cost decreased 120bp with reductions achieved on lease renewals and operating leverage on like for like sale growth
- ▶ Advertising maintained at LY% to sales with additional investments across all channels in traditional, digital and social media marketing driving sales growth
- ▶ Other expenses increased 20bp on LY with majority of the increase in line with growing online volumes impacting variable expenses such as freight and packaging costs.

# Strong Balance Sheet supports growth

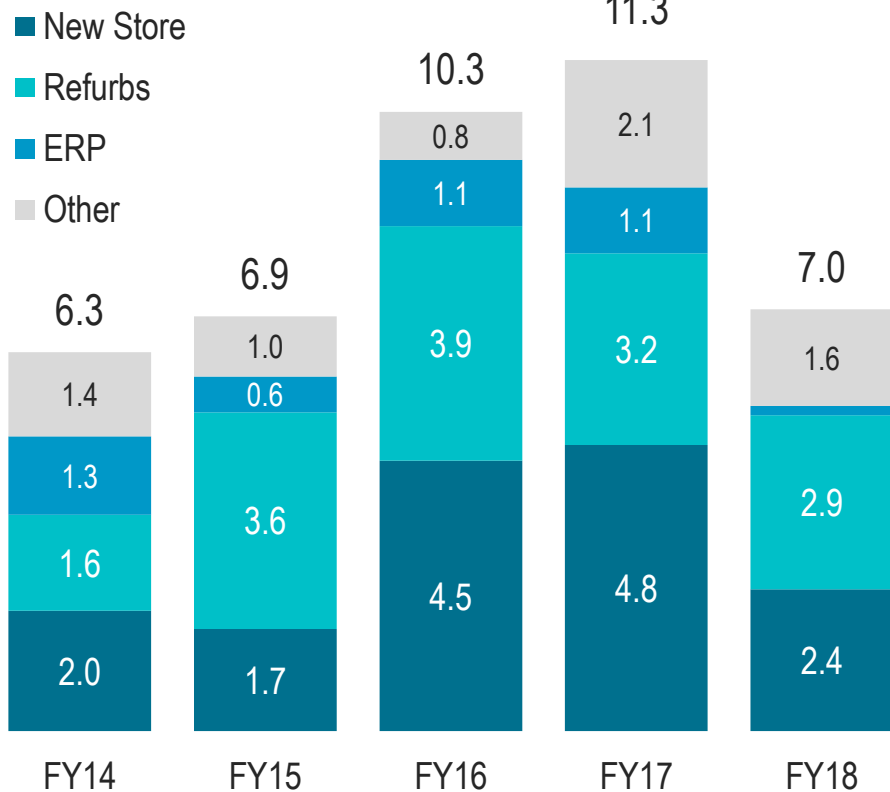
(\$ Million)	FY18	FY17
Cash and Cash Equivalents	12.7	14.3
Inventories	33.6	33.0
Plant and Equipment	20.9	20.2
Goodwill and Intangibles	114.2	114.7
Other Assets	13.6	10.5
<b>Total Assets</b>	<b>195.0</b>	<b>192.7</b>
Payables	27.1	26.4
Borrowings	25.0	41.9
Provisions	11.4	10.0
Other Liabilities	15.3	14.1
<b>Total Liabilities</b>	<b>78.8</b>	<b>92.4</b>
<b>Net Assets</b>	<b>116.2</b>	<b>100.3</b>

- ▶ Strong closing cash position of \$12.7m with net debt position improving \$15.4m over the year
- ▶ Borrowings reduced by \$17.0m as additional cash generated used to pay down debt. Debt facility of \$25m remains available if required
- ▶ Inventory levels well managed with an increase of 2% supporting sales growth of 19%. Stock turn improved to 3.5 times p.a.
- ▶ Payables increase largely in line with growth in inventory
- ▶ Net Debt/EBITDA ratio of 0.24x, improved substantially over last year (0.75x FY17)
- ▶ All covenants met with significant headroom





## CAPEX \$m



## Capital investment

- ▶ Overall CAPEX under guidance due to higher landlord contributions and postponed centre redevelopment impacting the store refurbishment schedule
- ▶ Spend down on prior year with 5 less new stores openings
- ▶ Opened 8 new stores and refurbished 7 stores with 5 of these upsized
- ▶ Other CAPEX of \$1.6m consists of technology enhancements and purchases of DC equipment

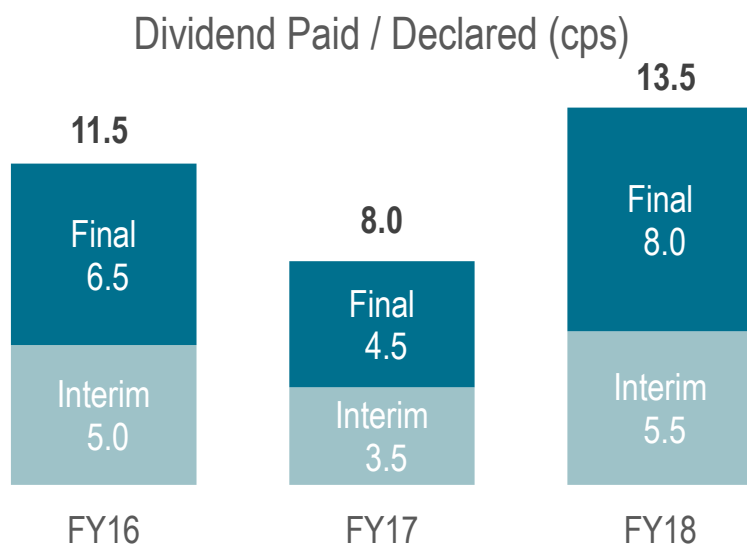
# Strong growth in operating cash flow and dividends

\$ Million	FY18	FY17	Change
Operating Cash Flow	39.1	27.5	11.6
Investment Cash Flow	(7.1)	(11.3)	4.2
Financing Cash Flow	(33.6)	(16.6)	(17.0)
<b>Net Cash Flow</b>	<b>(1.6)</b>	<b>(0.4)</b>	<b>(1.2)</b>
<b>Net Debt</b>	<b>(12.2)</b>	<b>(27.6)</b>	<b>15.4</b>

- ▶ Strong growth in operating cash flow, up 42% in line with EBITDA growth to \$39.1m
- ▶ Financing cash outflow increased \$17m as a result of application of surplus cash to repay drawn debt
- ▶ Net debt reduced by \$15.4m to LY
- ▶ FY18 dividends increase 68.8% on FY17
- ▶ FY18 final fully franked dividend of 8.0 cents per share with a record date of 12 September 2018 and a payment date of 26 September 2018

## Capital Management

- ▶ The Board continues to evaluate ongoing capital management initiatives in light of the Company's capital investment requirements
- ▶ Management are currently reviewing capital investment initiatives to support the future growth of the business, particularly on-line, including an investment in a larger distribution centre





### 3. KEY GROWTH DRIVERS



# Key growth drivers

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## Product, Product, Product

- ▶ On trend, well coordinated product for our broad customer base remains the focus
- ▶ Continue to differentiate our product through fashionability, quality and enhanced value
- ▶ Look to continue to grow our various expansion categories

## More Inspiring Larger Stores

- ▶ Store rollout and upsizing strategy continues
- ▶ Preference towards homemaker store formats to showcase coordinated ranges and enable a differentiated shopping experience
- ▶ Net 4 – 6 stores planned to open during FY19 allowing for closure of 3 Myer concessions

## Passionate High Performing Team Members

- ▶ Continuous investment in teams through training focused on product knowledge & customer service
- ▶ Enhancing our leadership development program

## International Expansion

- ▶ Remain confident that NZ will become a profitable market for Adairs
- ▶ Plan to roll out 2 additional stores over 2H19

## Best in Class Omni Retail Capacities

- ▶ Online now represents 13% of company sales and is a key contributor of future growth
- ▶ Key engagement channel with customers
- ▶ Linen Lover membership continues to build in size and contribution





# Store footprint

New stores opened	Upsized stores
▶ Uni Hill (outlet)	▶ Coffs Harbour*
▶ Melbourne Central	▶ Greensborough
▶ Greenhills	▶ Chermide*
▶ Hamilton (NZ)*	▶ Myaree*
▶ Mandurah Forum	▶ Moorabbin*
▶ Riccarton (NZ)	
▶ Wollongong	
▶ Busselton*	

*\* Homemaker or Mini Homemaker stores*

Continue growing our store footprint across Australia and New Zealand both in number of stores and average square meters per store

- ▶ Upsized stores increase store profit contribution by circa 39%
- ▶ Continued focus on opening homemaker stores and selectively increasing the size of our shopping centre stores
- ▶ Preference is to open larger store formats in centres as opposed to opening individual Adairs, Adairs Kids and UHR stores

# Omni channel – evolving our capabilities to drive growth

FY18 was a very successful year for our online channel. With sales growth of 75% we increased online to 13% of total sales (9% FY17).

As we look to the future our omni channel approach combined with online will be a key growth driver

To continue to deliver growth we will focus on four key pillars:

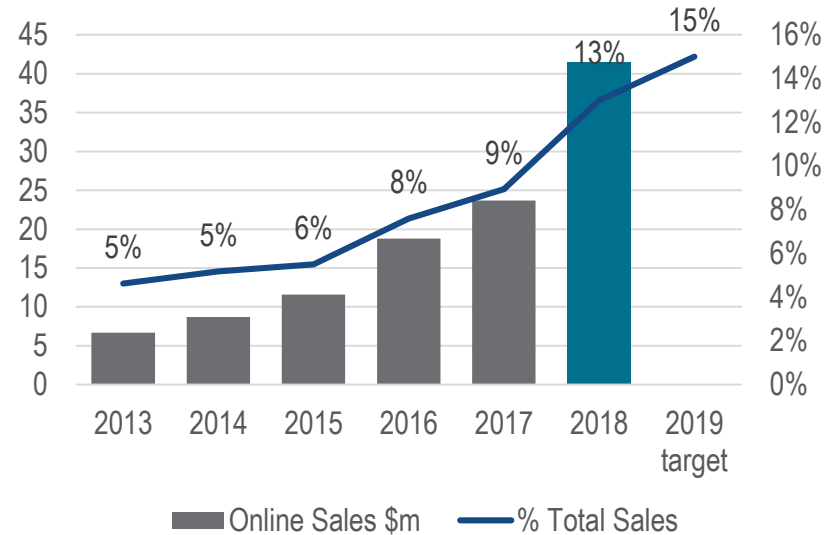
## Grow our Online Store:

- ▶ Expanded online product range accessible both online and in store
- ▶ Increasing the personalised shopping experience
- ▶ Improved delivery options

## Drive traffic to Adairs (online and stores):

- ▶ Utilise digital marketing as our primary communication method
- ▶ Increase levels of targeted and personalized CRM driven digital marketing
- ▶ Online to provide customers an excellent research, planning and shopping tool

Online Sales and % Mix



## A seamless omni channel experience

- ▶ The same excellent customer experience across channels
- ▶ Increased informative content to support customer research
- ▶ Buy anywhere, fulfil anywhere, return anywhere is our goal

## Build Adairs brand

- ▶ Online is our flagship store to build our brand awareness
- ▶ Combine fashion and staple items to enable customers to explore and discover the broad range
- ▶ Drive customer engagement via Linen Lovers and social media

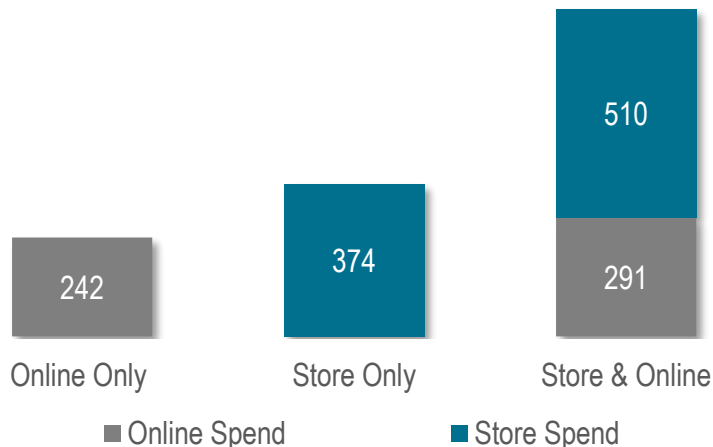


# Loyalty and Omni channel delivering results

## 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 frequently 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 increasingly important customer acquisition channel. Over 50% of online sales are to Linen Lovers and the ratio continues to grow

### Per Active Member Annual Spend (\$)



## Linen Lovers - driving loyalty and repeat purchase

LL Represent

>70%

Of our total company sales

Member base growing

15-20%

annually

Linen Lovers allows us to:

- ▶ Provide a deeper insight of what she wants and expects
- ▶ Enables more targeted, personalized content and marketing
- ▶ Increase engagement levels via our digital and social media initiatives

Our Linen Lovers often browse online before shopping in store. She loves fashion and newness and likes to explore, linger and add an extra item or two if inspired

1.5-2X

Higher spend per transaction than non member

4-5X

purchases p.a. on average

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# New Zealand rollout progressing

New Zealand result lower than expected

- ▶ Stores were initially overstocked and this has limited the flow of 'fashion and newness' into the NZ market. This execution error has been corrected over FY18
- ▶ Further supply chain challenges impacted visibility leading to poor stock management impacting gross margin. We successfully changed 3rd party logistics providers late in the financial year
- ▶ Lower take up of our core lines (sheets, towels and bedding) due to a perception of being expensive. We have recently reworked the price point and 'basic offer' (more value staples) to better appeal to first time Adairs NZ customers
- ▶ Brand awareness is building aided by the opening of 2 additional stores (Hamilton and Riccarton). We will continue to invest in a broad range of marketing initiatives to build brand awareness
- ▶ Our NZ Online store sales is growing strongly and elevating our brand profile



## 4. COMPANY OUTLOOK



# FY19 Outlook

	FY19 Guidance
Year End Stores	171 – 173
Sales (\$m)	345 – 360
Gross Margin%	59 – 61%
EBIT (\$m)	47.5 – 51.5
Capital Investment (\$m)	8 – 10

## Trading Update

- ▶ Our first 7 weeks of trade has delivered like for like sales growth of +5.4% across stores and online
- ▶ This is a positive start to the year with new seasons ranges continuing to arrive in store

## Sales

- ▶ Our outlook implies LFL sales growth of between 5% and 8% underpinned by growth in both store and online channels
- ▶ We expect to open 7 - 10 stores and upsize 3 - 5 stores during FY19
- ▶ Sales range takes into account the closure of 3 concession stores in Australia (contributed ~\$1.5m sales in FY18)

## Gross Margin

- ▶ Gross Margin % to be in the long term range of 59% - 61%, with management expecting minimal gross profit gains from FX

## EBIT

- ▶ EBIT range of \$47.5m - \$51.5m with the 2<sup>nd</sup> quarter being key to delivering the 1H result

## Capital Investment

- ▶ Includes new and refurbished stores, upgrade of facilities at customer support office and an allowance to fitout an additional distribution centre to support growth over the near term whilst reviewing longer term options



QUESTIONS?





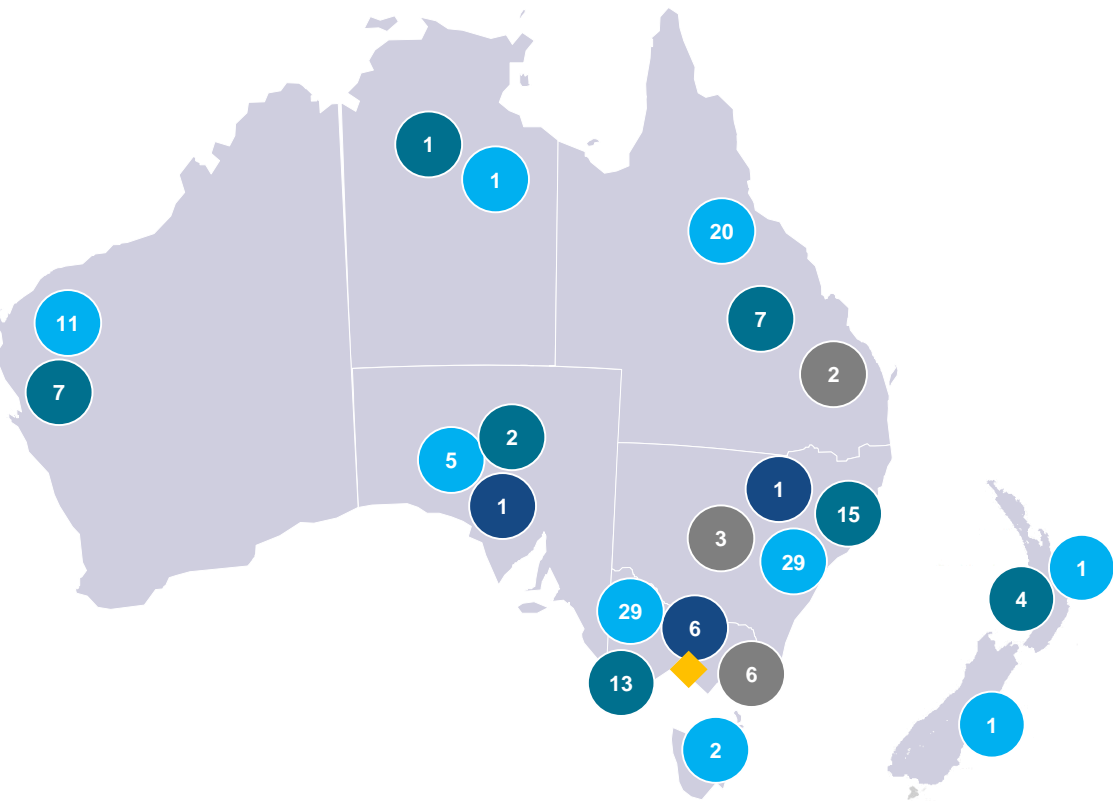
# APPENDIX

1. Store footprint
2. Sales LFL history
3. Statutory profit to EBIT reconciliation
4. Cash flow





# Appendix 1 – store footprint



Total Stores: 167 (FY17: 160)

## FY18 New Stores

Adairs – Melbourne Central, Greenhills, Riccarton (NZ), Wollongong, Mandurah Forum

Homemaker – Hamilton (NZ), Busselton

Adairs Outlet – Uni Hill

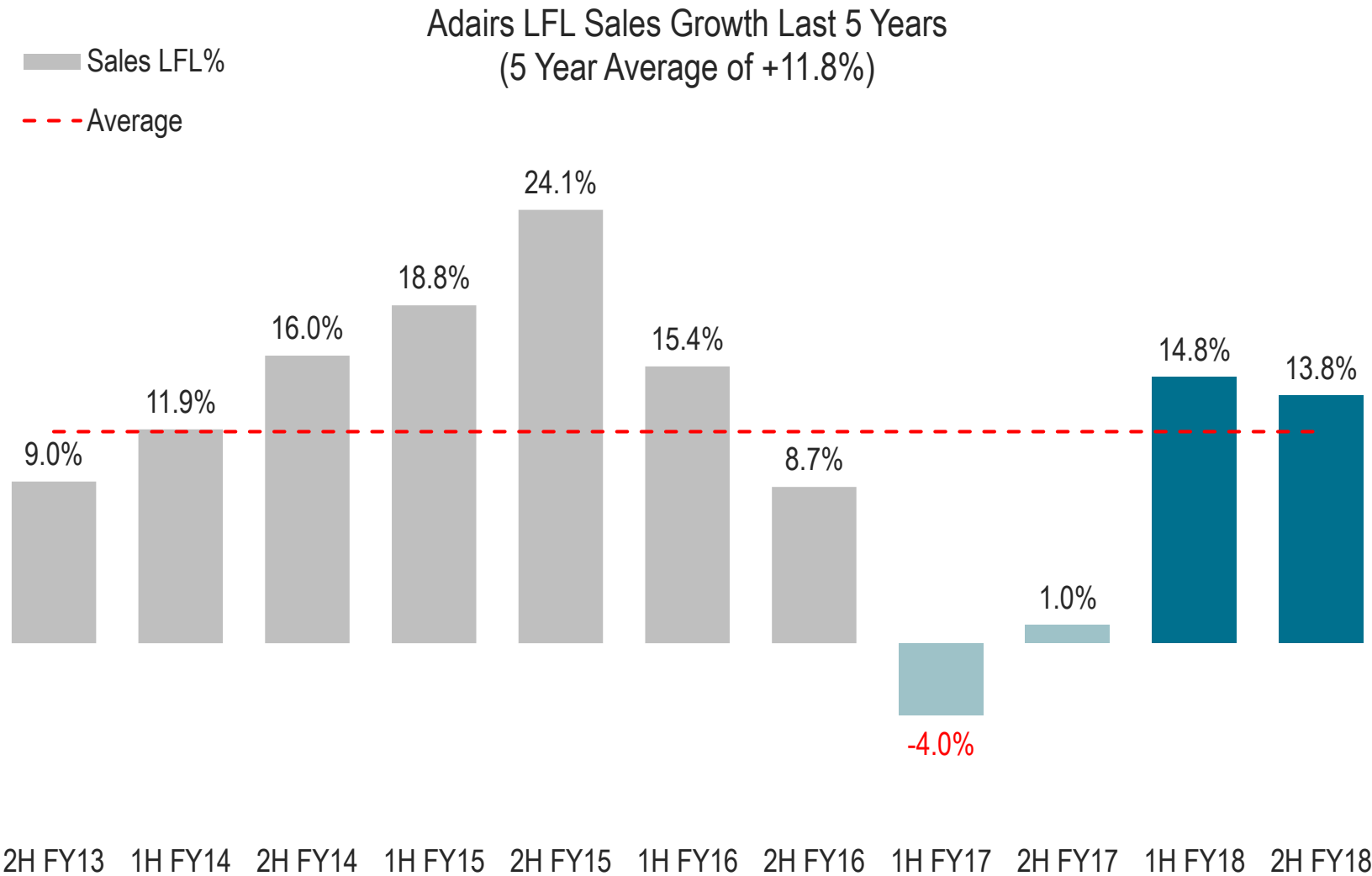
## FY18 Refurbished Stores

Adairs – Westlakes, Hawthorn, Chermide, Greensborough

Homemaker – Coffs Harbour, Myaree, Moorabbin

- 99 – Adairs stores (incl. outlets)
- 49 – Homemaker stores
- 11 – Adairs Kids
- 8 – UHR and Concessions
- ◆ – DC and HQ

# Appendix 2 – Adairs sales LFL history



## Appendix 3 – statutory profit to EBIT/EBITDA reconciliation

	FY18	FY17	FY16 <sup>(1)</sup>	FY15 <sup>(2)</sup>
Statutory Profit After Income Tax	30,561	21,017	27,172	2,942
<i>Add back:</i>				
Finance Expenses	1,489	1,946	2,006	14,267
Interest Income	(44)	(55)	(81)	(446)
Income tax expense	13,255	7,904	11,651	1,675
<b>EBIT</b>	<b>45,261</b>	<b>30,812</b>	<b>40,748</b>	<b>18,438</b>
<i>Add back:</i>				
53 <sup>rd</sup> Week EBIT			(1,618)	-
Transaction Costs			101	14,727
Other Operating Adjustments			-	(28)
<b>Pro-forma EBIT from continuing operations</b>			<b>39,231</b>	<b>33,137</b>

<sup>(1)</sup> FY16 is pro-forma removing the impact of the 53<sup>rd</sup> week of trade

<sup>(2)</sup> FY15 is pro-forma removing the impact of IPO transactions



## Appendix 4 – Cash flow

	FY18	FY17	Change
<b>EBITDA</b>	<b>52.1</b>	<b>36.7</b>	15.4
Movements in Working Capital	(0.2)	7.8	(8.0)
Cash Tax Paid	(11.4)	(15.2)	3.8
Capex	(7.1)	(11.3)	4.2
<b>Free Cash Flow from Operations</b>	<b>33.4</b>	<b>18.0</b>	<b>15.4</b>
Net Interest & Borrowing Costs	(1.4)	(1.8)	0.4
Dividends Paid	(16.6)	(16.6)	(0.0)
<b>Movement in Net Debt</b>	<b>15.4</b>	<b>(0.4)</b>	15.8



## Disclaimer

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